CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2024

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

Contents **Page(s)**

Report of the board of directors	2
Independent auditor's report	5
Consolidated statement of profit or loss	10
Consolidated statement of comprehensive income	11
Consolidated statement of financial position	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15
Unaudited supplementary financial information	123

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

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, 2024.

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 30 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, 2024 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 122.

Dividends

The directors do not recommend the payment of a final dividend for the year ended December 31, 2024 (2023: 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 HKD720,455 (2023: HKD932,632).

Certificates of deposit, medium term note and debt securities issued

During the year, the Group issued RMB 3 billion panda bond. The bond is denominated in RMB, has a maturity of 3 years due in 2027, bears a fixed interest rate of 2.05% per annum payable annually. No certificates of deposit and medium term notes were issued by the Bank during the year.

Other equity instruments issued

During the year, the following instruments were issued by the Bank to fulfil the Loss-Absorbing Capital Requirements as set out in the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules (Cap. 628B).

Class	Amount Issued USD'000	Consideration received USD'000
Undated non-cumulative subordinated additional tier 1 capital instruments	2,000,000	2,000,000

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:

ZHANG Jun (Vice Chairman)	
KWOK Pui Fong Miranda JP	
AUYEUNG Pak-kuen Rex GBS, JP	
FOK Glenn	
LEUNG Kwok Wai Jimmy	
LEUNG Wing Lok	
LI Qianxin	(appointed on December 13, 2024)
WANG Bing	(cessation of appointment on November 22, 2024)
LI Min	(cessation of appointment on October 22, 2024)
FENG Xilai	(cessation of appointment on May 28, 2024)

Pursuant to Clause 111(3) of the Bank's Articles of Association, Ms. Kwok Pui Fong Miranda and Mr. Leung Kwok Wai Jimmy shall retire from office and being eligible offer themselves for re-election at the forthcoming annual general meeting ("AGM") of the Bank for three years up to the date of the AGM of year 2028. Ms. Kwok Pui Fong Miranda and Mr. Leung Kwok Wai Jimmy 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 Mr. Fok Glenn will be expired at the forthcoming AGM of the Bank. The Bank considered that Mr. Fok has performed his duty of loyalty and care with exceptional diligence during his services and fulfilled the independence and fit and proper requirements of director of the Bank, and intended to propose the Shareholder appropriately extends the term of office of Mr. Fok.

The extension of term of office of Dr. Auyeung Pak-kuen Rex for an additional year was approved at the AGM of year 2024, and will be expired at the forthcoming AGM of the Bank. The Bank considered that Dr. Auyeung has performed his duty of loyalty and care with exceptional diligence during his services and fulfilled the independence and fit and proper requirements of director of the Bank, and intended to propose the Shareholder appropriately extends the term of office of Dr. Auyeung.

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

Mr. WANG Bing, Mr. LI Min and Mr. FENG Xilai ceased to be Non-executive Director of the Bank on November 22, 2024, October 22, 2024 and May 28, 2024 respectively. Mr. WANG Bing, Mr. LI Min and Mr. FENG Xilai confirmed that they have 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 is also a director of a subsidiary of the Bank. Other directors of the Bank's subsidiaries during the year and up to the date of this report include:

WU Jian	
WAT Wing Kam	
CHEN POONIS Annie	
LIU Huifen	
CHENG Tat Kin (Alias: Joseph)	
LAI King Lun	
LEE Sui Man	
SIT Pui Chan Rita	
WU Ching Luk	
WU Man Tik	
YEUNG Sze Wai	
WANG Zi	(appointed on August 26, 2024)
LI Angela Lai Yeung	(appointed on February 11, 2025)
YE Lin	(resigned on August 26, 2024)

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, 2024 comply with the applicable disclosure provisions of the Hong Kong Banking (Disclosure) Rules.

Auditor

The consolidated financial statements have been audited by Ernst & Young who shall retire and being eligible, offer themselves for re-appointment. A resolution for re-appointment of Ernst & Young as the auditor of the Company will be proposed at the forthcoming AGM.

By order of the board of directors

ZHANG Jun
Vice Chairman, Executive Director and Chief Executive Officer

Hong Kong, March 21, 2025

EY 安永

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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 122, which comprise the consolidated statement of financial position as at December 31, 2024, 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 material accounting policy information.

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, 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
Refer to material accounting policies in Note 4(c)(xv), and disclosures on credit risk in Note 8(a) and Note 24 to the consolidated financial statements. As at 31 December 2024, gross advances to customers amounted to HK$277.9 billion, representing 53% of total assets; and the expected credit loss ("ECL") allowances for advances to customers amounted to HK$2.2 billion, representing 91% of the total ECL allowances for financial instruments. 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. The Group has adopted a forward-looking expected loss impairment model to recognise ECLs in respect of advances to customers. 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 For individual impairment allowances, management judgement is required to determine the probability of multiple exit or work out scenarios and estimate the impact that the uncertainties observed in current economic environment, including heightened risk associated with the Mainland China and Hong Kong real estate sector, may have on these exit strategies, the time to collect, and collateral valuation. 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. 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 2024, 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 for a sample of 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, and evaluated 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 and Hong Kong real estate sector, 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 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 material 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. As at 31 December 2024, the Group's financial assets and liabilities measured at fair value amounted to HK$156,829 million and HK$23,779 million, respectively. In connection with this, HK$70,477 million and HK$229 million of the Group's financial assets measured at fair value were categorised within level 2 and level 3, respectively; and all the Group's financial liabilities measured at fair value were categorised within level 2. 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.	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.

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.

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

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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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 Lam Yiu Wah.

Ernst & Young

Certified Public Accountants
Hong Kong
21 March 2025

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2024
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	**2024**	2023
Interest income		**22,249,389**	20,244,185
Interest expense		**(14,156,925)**	(13,697,212)
Net interest income	11	**8,092,464**	6,546,973
Fees and commission income		**1,882,888**	1,707,960
Fees and commission expense		**(174,651)**	(156,947)
Net fees and commission income	12	**1,708,237**	1,551,013
Net trading income	13	**916,239**	705,052
Net losses from financial instruments designated at fair value through profit or loss	14	**(516,670)**	(17,475)
Net gains from disposal of financial assets measured at fair value through other comprehensive income		**146,187**	71,178
Other operating income	15	**70,187**	70,330
Total operating income		**10,416,644**	8,927,071
Operating expenses	16	**(3,167,415)**	(3,178,640)
Operating profit before impairment losses		**7,249,229**	5,748,431
Net charge on expected credit losses	17	**(217,580)**	(957,972)
Operating profit		**7,031,649**	4,790,459
Losses on disposal of fixed assets		**(120)**	-
Share of profit of joint venture	31	**14,982**	9,257
Profit before taxation		**7,046,511**	4,799,716
Taxation	19	**(1,126,650)**	(795,491)
Profit for the year		**5,919,861**	4,004,225

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, 2024
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	2024	2023
Profit for the year	**5,919,861**	4,004,225
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	**756,700**	1,434,694
Reclassification adjustments for amounts transferred to profit or loss	**(146,187)**	(71,178)
Expected credit losses recognised in profit or loss	**30,548**	22,450
Tax effect	**(101,748)**	(224,707)
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	**54,792**	75,329
Other comprehensive income for the year, net of tax	**594,105**	1,236,588
Total comprehensive income for the year	**6,513,966**	5,240,813

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, 2024

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

	Note	**2024**	2023
ASSETS			
Cash and balances with banks and central banks	21	**34,863,923**	46,954,109
Placements with banks	22	**37,534,839**	40,632,740
Financial assets measured at fair value through profit or loss	25	**4,037,977**	1,906,328
Financial assets held under reverse repurchase agreements	23	**-**	2,023,967
Derivative financial instruments	28	**8,024,916**	1,971,341
Advances to banks	24	**7,305,833**	265,597
Advances to customers and trade bills	24	**275,688,645**	259,717,847
Financial assets measured at fair value through other comprehensive income	26	**144,765,736**	128,717,611
Other assets measured at amortised cost	27	**722,500**	1,576,306
Interest in a joint venture	31	**1,857,162**	1,856,180
Deferred tax assets	32	**534,778**	633,945
Fixed assets	33	**2,123,365**	2,219,069
Right-of-use assets	34	**1,176,550**	1,302,952
Other assets	36	**3,615,584**	4,079,683
Total assets		**522,251,808**	493,857,675
LIABILITIES			
Deposits and balances with banks	37	**13,742,642**	10,014,023
Deposits from customers	38	**371,761,774**	381,073,831
Financial assets sold under repurchase agreements	39	**3,425,121**	9,370,572
Derivative financial instruments	28	**6,488,813**	1,331,114
Financial liabilities designated at fair value through profit or loss	40	**17,290,359**	6,368,794
Other debt securities issued	41	**3,195,926**	660,058
Lease liabilities	35	**724,543**	853,346
Current tax payable	32	**348,584**	447,954
Deferred tax liabilities	32	**17,850**	18,012
Other liabilities	42	**6,024,039**	6,257,308
Total liabilities		**423,019,651**	416,395,012
EQUITY			
Share capital	43	**28,827,843**	28,827,843
Other equity instruments	44	**23,325,106**	7,777,601
Reserves	45	**47,079,208**	40,857,219
Total equity		**99,232,157**	77,462,663
Total equity and liabilities		**522,251,808**	493,857,675

Approved and authorised for issue by the Board of Directors on March 21, 2025.

ZHANG Jun
Vice Chairman, Executive Director and Chief Executive Officer

KWOK Pui Fong Miranda JP
Non-Executive Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2024
(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, 2024		**28,827,843**	**7,777,601**	**750,956**	**(458,060)**	**572,887**	**15,913**	**62,262**	**39,913,261**	**77,462,663**
Changes in equity for 2024:										
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,919,861**	**5,919,861**
Other comprehensive income, net of tax		**-**	**-**	**-**	**594,105**	**-**	**-**	**-**	**-**	**594,105**
Total comprehensive income for the year		**-**	**-**	**-**	**594,105**	**-**	**-**	**-**	**5,919,861**	**6,513,966**
Issuance of other equity instruments		**-**	**15,547,505**	**-**	**-**	**-**	**-**	**-**	**-**	**15,547,505**
Coupon paid for other equity instruments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(291,977)**	**(291,977)**
Regulatory reserve		**-**	**-**	**-**	**-**	**180,544**	**-**	**-**	**(180,544)**	**-**
Balance as at December 31, 2024		**28,827,843**	**23,325,106**	**750,956**	**136,045**	**753,431**	**15,913**	**62,262**	**45,360,601**	**99,232,157**

	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, 2023		28,827,843	7,777,601	750,956	(1,694,648)	909,600	15,913	62,262	35,865,469	72,514,996
Changes in equity for 2023:										
Profit for the year		-	-	-	-	-	-	-	4,004,225	4,004,225
Other comprehensive income, net of tax		-	-	-	1,236,588	-	-	-	-	1,236,588
Total comprehensive income for the year		-	-	-	1,236,588	-	-	-	4,004,225	5,240,813
Coupon paid for other equity instruments		-	-	-	-	-	-	-	(293,146)	(293,146)
Regulatory reserve		-	-	-	-	(336,713)	-	-	336,713	-
Balance as at December 31, 2023		28,827,843	7,777,601	750,956	(458,060)	572,887	15,913	62,262	39,913,261	77,462,663

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

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	2024	2023
Net cash (outflow)/inflow from operations	50(a)	**(24,238,453)**	34,971,744
Hong Kong Profit Tax paid		**(1,215,515)**	(460,775)
Withholding tax paid		**(13,189)**	(12,453)
Net cash (outflow)/inflow from operating activities		**(25,467,157)**	34,498,516
Purchase of financial assets measured at fair value through other comprehensive income		**(162,140,346)**	(34,271,576)
Proceeds received from redemption and disposal of financial assets measured at fair value through other comprehensive income		**147,835,158**	21,398,369
Proceeds received from redemption and disposal of other assets measured at amortised cost		**842,372**	1,506,114
Purchase of property and equipment	33	**(141,549)**	(170,618)
Dividend received from a joint venture	31	**14,000**	25,000
Dividends received from listed and unlisted investments		**1,866**	5,792
Net cash outflow from investing activities		**(13,588,499)**	(11,506,919)
Issuance of other equity instruments		**15,547,505**	-
Coupon paid for other equity instruments		**(291,977)**	(293,146)
Principal portion of lease payments		**(238,442)**	(237,080)
Net cash inflow/(outflow) from financing activities		**15,017,086**	(530,226)
(Decrease)/increase in cash and cash equivalents		**(24,038,570)**	22,461,371
Cash and cash equivalents as at January 1		**73,181,732**	50,459,251
Effect of foreign exchange rate changes		**(500,037)**	261,110
Cash and cash equivalents as at December 31	50(b)	**48,643,125**	73,181,732
Cash flows from operating activities include:			
Interest received		**22,026,717**	19,010,050
Interest paid		**(14,191,840)**	(13,305,753)
Interest paid – interest portion of lease payments	35	**(16,786)**	(16,737)

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, 2024 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 21, 2025.

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; and (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. 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, 2024**	December 31, 2023	**December 31, 2024**	December 31, 2023
CCBS	Securities brokerage business	**775,255**	781,416	**510,028**	617,617
CCBN	Custodian and nominees services	**10,248**	10,360	**9,623**	9,668
CCBT	Trustee and custodian business	**170,813**	129,958	**146,723**	117,746

4 Material 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 Material 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.

4 Material 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 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 Material 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 28. Changes in the fair value of derivatives are included in "Net trading income". Hedge accounting disclosures are provided in Note 29.

4 Material 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, 2024 and December 31, 2023, the changes in the fair value of own credit risk of financial liabilities designated at FVPL 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 measured at fair value through profit or loss

Financial assets and financial liabilities in this category are those mandatorily required to be measured at fair value under HKFRS 9 and 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.

The classification of held for trading included debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

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.

4 Material accounting policies (continued)

(c) Financial instruments (continued)

(vii) Financial instruments designated 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. 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 designated 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.

(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 Material 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 reverse repurchase agreements and financial assets sold under repurchase agreements

Financial assets held under reverse repurchase agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under reverse repurchase 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 reverse repurchase or sold under repurchase agreements in the consolidated statement of financial position. Assets held under reverse repurchase 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.

(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 Material 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 Material 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 Material 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 Material 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 Material 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.

- 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 Material 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 29.

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 or liabilities 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 Material 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 Material 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 Material 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 Material 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 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 Material 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 Material 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 Material 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 Material 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 Material 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

The application of the below amendments does not have a material impact on the Group's financial statements.

(a) 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.

(b) Amendments to HKAS 1 "Non-current Liabilities with Covenants"

Amendments to HKAS 1 clarify that, among covenants of a liability arising from a loan agreement, only these with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. The amendments also require additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

(c) Amendments to HKAS 7 and HKFRS 7 "Supplier Finance Arrangements"

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures.

(d) Amendments to HKFRS 16 "Lease Liability in a Sale and Leaseback"

Amendments to HKFRS 16 add subsequent measurement requirements for a sale and leaseback transaction, where the transfer of the asset satisfies the requirements in HKFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.

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.

Detailed information about the judgements and estimates made by the Group in the above areas 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 the counterparty, funding value adjustments, correlation and volatility.

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 HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which effective date is to be determined.
Amendments to HKAS 21	Lack of Exchangeability, which effective for annual period beginning on or after January 1, 2025.
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments, which effective for annual period beginning on or after January 1, 2026.
Annual Improvements to HKFRS Accounting Standards - Volume 11	Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7 for annual period beginning on or after January 1, 2026.
HKFRS 18	Presentation and Disclosure in Financial Statements, which effective for annual period beginning on or after January 1, 2027.
HKFRS 19	Subsidiaries without Public Accountability: Disclosures, which effective for annual period beginning on or after January 1, 2027.

None of these is expected to have a significant effect on the consolidated financial statements of the Group.

Amendments to HKFRS 10 “Consolidated Financial Statements” and HKAS 28 “Investments in Associates and Joint Ventures”

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 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 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.

Amendments to HKAS 21 “Lack of Exchangeability”
Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application.

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

Amendments to HKFRS 9 "Financial Instruments" and HKFRS 7 "Financial Instruments: Disclosures"
In August 2024, the HKICPA issued Amendments to HKFRS 9 "Financial Instruments" and HKFRS 7 "Financial Instruments: Disclosures", effective for annual reporting periods beginning on or after January 1, 2026. The amendments include clarifications on how ESG-linked features could affect the assessment of contractual cash flows, and introduction on an accounting policy option to derecognise financial liabilities that are settled through an electronic payment system before settlement date if specified criteria are met. Further, the amendments provide clarification on the date on which a financial asset or a financial liability is derecognized, and the requirements for classifying financial assets with non-recourse features and contractually linked instruments.

Annual Improvements to HKFRS Accounting Standards - Volume 11 "Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7 for annual period beginning on or after January 1, 2026"
Annual Improvements to HKFRS Accounting Standards – Volume 11 set out amendments to HKFRS 1,HKFRS 7 (and the accompanying Guidance on implementing HKFRS 7), HKFRS 9, HKFRS 10 and HKAS 7. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures*: The amendments have updated certain wordings in paragraph B38 of HKFRS 7 and paragraphs IG1, IG14 and IG20B of the Guidance on implementing HKFRS 7 for the purpose of simplification or achieving consistency with other paragraphs in the standard and/or with the concepts and terminology used in other standards. In addition, the amendments clarify that the Guidance on implementing HKFRS 7 does not necessarily illustrate all the requirements in the referenced paragraphs of HKFRS 7 nor does it create additional requirements
- HKFRS 9 *Financial Instruments*: The amendments clarify that when a lessee has determined that a lease liability has been extinguished in accordance with HKFRS 9, the lessee is required to apply paragraph 3.3.3 of HKFRS 9 and recognise any resulting gain or loss in profit or loss. In addition, the amendments have updated certain wordings in paragraph 5.1.3 of HKFRS 9 and Appendix A of HKFRS 9 to remove potential confusion.
- HKFRS 10 *Consolidated Financial Statements*: The amendments clarify that the relationship described in paragraph B74 of HKFRS 10 is just one example of various relationships that might exist between the investor and other parties acting as de facto agents of the investor, which removes inconsistency with the requirement in paragraph B73 of HKFRS 10.
- HKAS 7 *Statement of Cash Flows*: The amendments replace the term "cost method" with "at cost" in paragraph 37 of HKAS 7 following the prior deletion of the definition of "cost method".

HKFRS 18 "Presentation and Disclosure in Financial Statements"
In July 2024, the HKICPA issued HKFRS 18 "Presentation and Disclosure in Financial Statements", effective for annual reporting periods beginning on or after January 1, 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about a company's financial performance. It will replace HKAS 1 "Presentation of Financial Statements" but carries over many requirements from this HKAS unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management defined performance measures and the aggregation and disaggregation of information.

HKFRS 19 "Subsidiaries without Public Accountability: Disclosures"
In July 2024, the HKICPA issued HKFRS 19 "Subsidiaries without Public Accountability: Disclosures", effective for annual reporting periods beginning on or after January 1, 2027. The new accounting standard aims at simplifying financial reporting for eligible subsidiary companies by allowing reduced disclosures.

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 Asset and Liability Committee ("ALCO"), Fintech and Digitalisation Promotion Committee, Safety Production Committee, Accountability Committee, Corporate Banking Committee, Retail Banking Committee, Risk Management Committee, Credit Committee and Internal Control, Compliance & 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, which 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, reputation risk and climate 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. 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)

The Group will be continuously monitoring the development of the external economy environment and actively managing the credit risks under extreme economic hardship. At present, the external business environment has a high degree of uncertainty given the complicated geopolitical conflicts among the countries, the economic recovery in short term is challenging. The Group will regularly update the credit risk assessment indicators and economic scenarios, and will be continuously monitoring and managing to the potential credit risk. Nevertheless, the Group's asset quality still maintained stable by continuing to uphold the stringent credit acceptance criteria and prudent credit monitoring & control measures to protect the Group's exposure. This was also supported by regular and ad hoc portfolio review 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

	2024	2023
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	**34,863,923**	46,954,109
Placements with banks	**37,534,839**	40,632,740
Financial assets held under reverse repurchase agreements	**-**	2,023,967
Advances to banks	**7,305,833**	265,597
Advances to customers and trade bills	**275,688,645**	259,717,847
Financial assets measured at fair value through profit or loss	**4,037,977**	1,906,328
Financial assets measured at fair value through other comprehensive income – debt investments	**144,469,080**	128,475,747
Other assets measured at amortised cost	**722,500**	1,576,306
Derivative financial instruments	**8,024,916**	1,971,341
Other assets	**3,615,584**	4,079,683
Credit risk exposures relating to items not included in consolidated statement of financial position are as follows:		
Financial guarantees	**4,402,526**	4,513,376
Loan commitments and other credit related commitments	**90,969,412**	86,715,070
	611,635,235	578,832,111

The above table shows the maximum credit risk exposure to the Group as at December 31, 2024 and December 31, 2023, 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.
Financial assets held under reverse repurchase agreements	These exposures represented secured lending with collaterals of debt securities.
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 banks, advances to customers and trade bills covered by collateral is listed in Unaudited Supplementary Financial Information Note 1.
Financial assets measured at fair value through profit or loss	The fair values of these securities have reflected the credit risk. No collateral is sought directly from the issuer or the counterparty.
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.

8 Financial risk management (continued)

(a) Credit risk (continued)

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

Advances to banks, advances to customers and trade bills

As at December 31, 2024, the estimated fair value of the collateral and other credit enhancements held against lifetime ECL credit-impaired advances to banks, advances to customers and trade bills is $359 million (2023: $210 million).

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, 2024 and December 31, 2023, there was no repossession of collateral.

(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;
- Non-retail customers using internal scorecard models with Internal Rating result of 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 notches.

<u>Qualitative Indicators</u>

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.

<u>Quantitative Indicators</u>

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, 2024, 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, 2024 and December 31, 2023.

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. With the downturn of mainland real estate industry, the Hong Kong economy has been greatly impacted. 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.

For the year ended December 31, 2024, the average weight of upside, base, downside and alternative bad scenarios are 0.05, 0.71, 0.15 and 0.09 (2023: 0.03, 0.63, 0.24 and 0.10).

(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, 2024 and December 31, 2023 are set out below. The variables are the average of probability weighted values between Years 2025 - 2029 and between Years 2024 - 2028 respectively:

	2024	2023
Hong Kong GDP Growth Rate	**+2.57%**	+3.17%
Hong Kong Residential Property Price Index	**+0.58%**	+1.32%
Hong Kong Unemployment Rate	**3.93%**	4.33%

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	
	2024	2023
House price index		
Decrease by 10%	**49,323**	35,777
Increase by 10%	**(45,136)**	(33,018)

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

	% change in ECL allowances	
	2024	**2023**
Probability Weighted Average Sensitivity		
Shifting 5% probability from Base Scenario to Good Scenario	**-1.62%**	-0.66%
Shifting 5% probability from Base Scenario to Bad Scenario	**+2.67%**	+2.89%
Shifting 5% probability from Base Scenario to Alternative Bad Scenario	**+7.47%**	+5.38%

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.

(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, 2024	**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	**37,535,417**	**-**	**-**	**-**	**-**	**37,535,417**	**(578)**	**37,534,839**
Advances to banks – stage 1	**7,321,376**	**-**	**-**	**-**	**-**	**7,321,376**	**(15,543)**	**7,305,833**
Advances to customers and trade bills at amortised cost:								
Stage 1	263,869,843	-	-	-	-	263,869,843	(1,059,908)	262,809,935
Stage 2	11,430,746	1,631,103	-	-	-	13,061,849	(530,282)	12,531,567
Stage 3	-	-	456,378	36,318	428,189	920,885	(576,603)	344,282
Advances to customers	**275,300,589**	**1,631,103**	**456,378**	**36,318**	**428,189**	**277,852,577**	**(2,166,793)**	**275,685,784**
Stage 1	2,865	-	-	-	-	2,865	(4)	2,861
Stage 2	-	-	-	-	-	-	-	-
Trade bills	2,865	-	-	-	-	2,865	(4)	2,861
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	**34,864,880**	**-**	**-**	**-**	**-**	**34,864,880**	**(957)**	**34,863,923**
Other assets measured at amortised cost – stage 1	**722,826**	**-**	**-**	**-**	**-**	**722,826**	**(326)**	**722,500**

(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, 2024 (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	**3,616,854**	**-**	**-**	**-**	**-**	**3,616,854**	**(1,270)**	**3,615,584**
Stage 1	143,816,099	-	-	-	-	143,816,099	(175,542)	143,640,557
Stage 2	949,637	-	-	-	-	949,637	(7,932)	941,705
Financial assets measured at fair value through other comprehensive income	**144,765,736**	**-**	**-**	**-**	**-**	**144,765,736**	**(183,474)**	**144,582,262**
Financial assets held under reverse repurchase agreements – Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total gross carrying amount - on balance sheet	**504,130,543**	**1,631,103**	**456,378**	**36,318**	**428,189**	**506,682,531**	**(2,368,945)**	**504,313,586**
Off balance sheet:								
Stage 1	95,236,854	-	-	-	-	95,236,854	(201,835)	95,035,019
Stage 2	135,084	-	-	-	-	135,084	(26,126)	108,958
Financial guarantees, loan commitments and other credit related commitments	**95,371,938**	**-**	**-**	**-**	**-**	**95,371,938**	**(227,961)**	**95,143,977**
Total nominal amount - off balance sheet	**95,371,938**	**-**	**-**	**-**	**-**	**95,371,938**	**(227,961)**	**95,143,977**
Total at as December 31, 2024	**599,502,481**	**1,631,103**	**456,378**	**36,318**	**428,189**	**602,054,469**	**(2,596,906)**	**599,457,563**

(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, 2023	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	40,633,132	-	-	-	-	40,633,132	(392)	40,632,740
Advances to banks – stage 1	266,156	-	-	-	-	266,156	(559)	265,597
Advances to customers and trade bills at amortised cost:								
Stage 1	245,742,180	-	-	-	-	245,742,180	(949,189)	244,792,991
Stage 2	13,811,735	1,625,575	-	-	-	15,437,310	(656,505)	14,780,805
Stage 3	-	-	186,496	146,865	2,491,622	2,824,983	(2,707,090)	117,893
Advances to customers	259,553,915	1,625,575	186,496	146,865	2,491,622	264,004,473	(4,312,784)	259,691,689
Stage 1	26,169	-	-	-	-	26,169	(11)	26,158
Stage 2	-	-	-	-	-	-	-	-
Trade bills	26,169	-	-	-	-	26,169	(11)	26,158
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	46,954,767	-	-	-	-	46,954,767	(658)	46,954,109
Other assets measured at amortised cost – stage 1	1,577,801	-	-	-	-	1,577,801	(1,495)	1,576,306

(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, 2023 (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	4,080,878	-	-	-	-	4,080,878	(1,195)	4,079,683
Stage 1	128,159,330	-	-	-	-	128,159,330	(134,499)	128,024,831
Stage 2	558,281	-	-	-	-	558,281	(18,427)	539,854
Financial assets measured at fair value through other comprehensive income	128,717,611	-	-	-	-	128,717,611	(152,926)	128,564,685
Financial assets held under reverse repurchase agreements – Stage 1	2,023,967	-	-	-	-	2,023,967	-	2,023,967
Total gross carrying amount - on balance sheet	483,834,396	1,625,575	186,496	146,865	2,491,622	488,284,954	(4,470,020)	483,814,934
Off balance sheet:								
Stage 1	91,224,097	-	-	-	-	91,224,097	(228,446)	90,995,651
Stage 2	4,349	-	-	-	-	4,349	(3)	4,346
Financial guarantees, loan commitments and other credit related commitments	91,228,446	-	-	-	-	91,228,446	(228,449)	90,999,997
Total nominal amount - off balance sheet	91,228,446	-	-	-	-	91,228,446	(228,449)	90,999,997
Total at as December 31, 2023	575,062,842	1,625,575	186,496	146,865	2,491,622	579,513,400	(4,698,469)	574,814,931

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.

Liquidity measurements

(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, 2024	**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	4,706,649	30,157,274	-	-	-	-	-	34,863,923
Placements with banks	-	-	7,636,725	15,874,287	14,023,827	-	-	37,534,839
Financial assets measured at fair value through profit or loss	-	502,078	868,758	1,008,760	1,328,798	329,583	-	4,037,977
Derivative financial instruments	-	2,120,901	2,235,990	2,928,797	530,662	208,566	-	8,024,916
Advances to banks	-	502,285	-	170,850	6,632,698	-	-	7,305,833
Advances to customers and trade bills	5,310,609	72,659,017	36,136,282	38,916,290	82,418,269	40,248,178	-	275,688,645
Financial assets measured at fair value through other comprehensive income	-	6,262,655	22,314,162	34,741,313	68,347,344	12,803,606	296,656	144,765,736
Other assets measured at amortised cost	-	-	722,500	-	-	-	-	722,500
Interest in a joint venture	-	-	-	-	-	-	1,857,162	1,857,162
Deferred tax assets	-	-	-	-	-	-	534,778	534,778
Fixed assets	-	-	-	-	-	-	2,123,365	2,123,365
Right-of-use assets	-	383	-	17,172	502,018	137,486	519,491	1,176,550
Other assets	1,403,800	979,953	125,444	912,538	10,896	-	182,953	3,615,584
Total assets	11,421,058	113,184,546	70,039,861	94,570,007	173,794,512	53,727,419	5,514,405	522,251,808

(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, 2024 (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	3,606,138	7,599,811	1,157,164	1,379,529	-	-	-	13,742,642
Deposits from customers	117,586,722	92,194,639	146,103,406	15,877,007	-	-	-	371,761,774
Financial assets sold under repurchase agreements	-	3,425,121	-	-	-	-	-	3,425,121
Derivative financial instruments	-	1,789,023	1,946,080	2,541,977	209,477	2,256	-	6,488,813
Financial liabilities designated at fair value through profit or loss	-	7,308,694	4,768,557	5,213,108	-	-	-	17,290,359
Other debt securities issued	-	-	-	20,000	3,175,926	-	-	3,195,926
Lease liabilities	-	22,958	36,676	159,574	455,443	49,892	-	724,543
Current tax payable	-	-	-	348,584	-	-	-	348,584
Deferred tax liabilities	-	-	-	-	-	-	17,850	17,850
Other liabilities	1,400,358	463,593	127,387	1,393,445	-	-	2,639,256	6,024,039
Total liabilities	122,593,218	112,803,839	154,139,270	26,933,224	3,840,846	52,148	2,657,106	423,019,651
Net assets/(liabilities) gap	(111,172,160)	380,707	(84,099,409)	67,636,783	169,953,666	53,675,271	2,857,299	99,232,157
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	-	6,262,655	22,314,162	34,741,313	68,347,344	12,803,606	-	144,469,080
- Other assets measured at amortised cost	-	-	722,500	-	-	-	-	722,500

(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, 2023	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	8,015,305	38,938,804	-	-	-	-	-	46,954,109
Placements with banks	-	-	18,722,435	6,889,318	15,020,987	-	-	40,632,740
Financial assets measured at fair value through profit or loss	-	47,489	569,370	221,430	848,938	219,101	-	1,906,328
Financial assets held under reverse repurchase agreements	-	2,023,967	-	-	-	-	-	2,023,967
Derivative financial instruments	-	446,607	633,067	235,449	429,283	226,935	-	1,971,341
Advances to banks	-	-	-	147,935	117,662	-	-	265,597
Advances to customers and trade bills	8,020,622	61,582,144	25,113,031	46,754,985	73,266,734	44,980,331	-	259,717,847
Financial assets measured at fair value through other comprehensive income	-	8,358,599	25,032,097	34,471,585	52,473,933	8,139,532	241,865	128,717,611
Other assets measured at amortised cost	-	-	332,318	522,411	721,577	-	-	1,576,306
Interest in a joint venture	-	-	-	-	-	-	1,856,180	1,856,180
Deferred tax assets	-	-	-	-	-	-	633,945	633,945
Fixed assets	-	-	-	-	-	-	2,219,069	2,219,069
Right-of-use assets	-	548	1,114	28,656	594,459	156,670	521,505	1,302,952
Other assets	1,455,166	470,471	47,735	2,005,151	5,872	-	95,288	4,079,683
Total assets	17,491,093	111,868,629	70,451,167	91,276,920	143,479,445	53,722,569	5,567,852	493,857,675

(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, 2023 (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	3,658,036	6,318,284	20,031	17,672	-	-	-	10,014,023
Deposits from customers	132,367,825	89,042,922	135,380,771	24,282,313	-	-	-	381,073,831
Financial assets sold under repurchase agreements	-	2,837,324	2,747,982	3,785,266	-	-	-	9,370,572
Derivative financial instruments	-	487,645	553,297	249,673	36,728	3,771	-	1,331,114
Financial liabilities designated at fair value through profit or loss	-	2,081,378	3,801,508	485,908	-	-	-	6,368,794
Other debt securities issued	-	-	-	660,058	-	-	-	660,058
Lease liabilities	-	19,854	38,606	167,200	556,276	71,410	-	853,346
Current tax payable	-	-	-	447,954	-	-	-	447,954
Deferred tax liabilities	-	-	-	-	-	-	18,012	18,012
Other liabilities	1,334,139	592,533	61,617	1,513,481	109,345	31	2,646,162	6,257,308
Total liabilities	137,360,000	101,379,940	142,603,812	31,609,525	702,349	75,212	2,664,174	416,395,012
Net assets/(liabilities) gap	(119,868,907)	10,488,689	(72,152,645)	59,667,395	142,777,096	53,647,357	2,903,678	77,462,663
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	-	8,358,599	25,032,097	34,471,585	52,473,933	8,139,532	-	128,475,746
- Other assets measured at amortised cost	-	-	332,318	522,411	721,577	-	-	1,576,306

(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, 2024	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	3,606,138	7,599,896	1,157,584	1,379,529	-	-	-	13,743,147
Deposits from customers	117,586,722	92,202,806	146,134,265	15,899,725	-	-	-	371,823,518
Financial assets sold under repurchase agreements	-	3,428,816	-	-	-	-	-	3,428,816
Financial liabilities designated at fair value through profit or loss	-	7,308,694	4,768,557	5,213,108	-	-	-	17,290,359
Other debt securities issued	-	-	-	195,533	3,241,103	-	-	3,436,636
Lease liabilities		24,261	39,161	168,773	470,761	51,055	-	754,011
Current tax payable	-	-	-	348,584	-	-	-	348,584
Deferred tax liabilities	-	-	-	-	-	-	17,850	17,850
Other liabilities	1,400,358	463,593	127,387	1,393,445	-	-	2,639,256	6,024,039
	122,593,218	111,028,066	152,226,954	24,598,697	3,711,864	51,055	2,657,106	416,866,960
Cash inflow/(outflow) of derivatives settled on a net basis	-	148	61,802	(4,363)	(50,081)	(1,452)	-	6,054
Cash flow of derivatives settled on a gross basis								
- Inflow	-	198,688,302	114,908,659	11,587,326	242,019,502	1,005,499	-	568,209,288
- Outflow	-	(198,344,245)	(114,887,778)	(11,606,681)	(241,159,136)	(1,011,956)	-	(567,009,796)
Contingent liabilities and commitments								
- Financial guarantees	198,894	263,717	670,774	2,744,690	523,451	1,000	-	4,402,526
- Loan commitments and other credit commitment	36,255,885	675,080	3,477,093	24,658,062	25,901,083	2,209	-	90,969,412

(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, 2023	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	3,658,036	6,319,060	20,172	17,957	-	-	-	10,015,225
Deposits from customers	132,367,825	89,051,546	135,424,184	24,299,293	-	-	-	381,142,848
Financial assets sold under repurchase agreements	-	2,905,725	2,771,612	3,831,668	-	-	-	9,509,005
Financial liabilities designated at fair value through profit or loss	-	2,101,949	3,865,152	485,908	-	-	-	6,453,009
Other debt securities issued	-	-	-	686,667	-	-	-	686,667
Lease liabilities	-	21,289	41,367	177,851	577,743	73,855	-	892,105
Current tax payable	-	-	-	447,954	-	-	-	447,954
Deferred tax liabilities	-	-	-	-	-	-	18,012	18,012
Other liabilities	1,334,139	592,533	61,617	1,513,481	109,345	31	2,646,162	6,257,308
	137,360,000	100,992,102	142,184,104	31,460,779	687,088	73,886	2,664,174	415,422,133
Cash inflow/(outflow) of derivatives settled on a net basis	-	70	65,623	15,219	2,744	5,259	-	88,915
Cash flow of derivatives settled on a gross basis								
- Inflow	-	98,077,489	40,908,954	44,217,158	4,618,577	-	-	187,822,178
- Outflow	-	(98,078,330)	(40,848,766)	(44,348,142)	(4,620,552)	-	-	(187,895,790)
Contingent liabilities and commitments								
- Financial guarantees	121,325	310,926	812,700	3,183,036	85,389	-	-	4,513,376
- Loan commitments and other credit commitment	39,953,076	964,830	2,605,958	23,728,199	19,457,263	5,744	-	86,715,070

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 interest rate 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:

	2024	2023
VaR	**4,033**	4,403
VaR for interest rate risk	**3,992**	4,416
VaR for foreign exchange risk	**580**	138

(i) Currency risk

<u>Currency risk management by the Group</u>

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 Risk Management Committee, with its update at least once a year or when the portfolio or the market conditions changes significantly.

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)

(i) Currency risk (continued)

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

As at December 31, 2024	HKD	USD	RMB	EUR	Others	Total
Assets						
Cash and balances with banks and central banks	7,186,784	24,198,458	1,362,240	428,738	1,687,703	34,863,923
Placements with banks	28,965,363	4,885,332	3,183,989	-	500,155	37,534,839
Financial assets measured at fair value through profit or loss	1,001,328	1,038,348	1,020,828	-	977,473	4,037,977
Derivative financial instruments	7,101,663	837,827	84,712	714	-	8,024,916
Advances to banks	-	7,305,833	-	-	-	7,305,833
Advances to customers and trade bills	134,097,638	95,266,806	23,967,466	11,890,950	10,465,785	275,688,645
Financial assets measured at fair value through other comprehensive income	37,700,571	62,769,503	38,673,561	5,622,101	-	144,765,736
Other assets measured at amortised cost	-	722,500	-	-	-	722,500
Interest in a joint venture	1,857,162	-	-	-	-	1,857,162
Deferred tax assets	534,778	-	-	-	-	534,778
Fixed assets	2,123,365	-	-	-	-	2,123,365
Right-of-use assets	1,176,550	-	-	-	-	1,176,550
Other assets	1,746,349	1,708,475	132,437	3,446	24,877	3,615,584
Spot assets	223,491,551	198,733,082	68,425,233	17,945,949	13,655,993	522,251,808

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)

(i) Currency risk (continued)

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

As at December 31, 2024 (continued)	HKD	USD	RMB	EUR	Others	Total
Liabilities						
Deposits and balances with banks	1,276,814	4,826,661	7,151,629	10,445	477,093	13,742,642
Deposits from customers	177,382,953	143,489,819	37,595,168	5,228,936	8,064,898	371,761,774
Financial assets sold under repurchase agreements	300,000	607,963	2,517,158	-	-	3,425,121
Derivative financial instruments	5,945,331	319,496	72,246	53,376	98,364	6,488,813
Financial liabilities designated at fair value through profit and loss	1,417,296	3,262,039	434,417	4,367,205	7,809,402	17,290,359
Other debt securities issued	-	-	3,195,926	-	-	3,195,926
Lease liabilities	724,543	-	-	-	-	724,543
Current tax payable	340,682	7,900	2	-	-	348,584
Deferred tax liabilities	17,850	-	-	-	-	17,850
Other liabilities	4,374,646	1,529,697	101,697	10,836	7,163	6,024,039
Spot liabilities	191,780,115	154,043,575	51,068,243	9,670,798	16,456,920	423,019,651
Forward purchases	86,870,004	265,161,487	196,342,346	4,826,288	20,292,261	573,492,386
Forward sales	(41,703,625)	(287,224,103)	(213,301,316)	(13,090,555)	(17,506,018)	(572,825,617)

(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, 2023	HKD	USD	RMB	EUR	Others	Total
Assets						
Cash and balances with banks and central banks	4,824,333	35,776,303	4,379,261	227,305	1,746,907	46,954,109
Placements with banks	27,282,019	10,057,590	3,293,131	-	-	40,632,740
Financial assets measured at fair value through profit or loss	350,050	253,883	732,173	-	570,222	1,906,328
Financial assets held under reverse repurchase agreements	-	2,023,967	-	-	-	2,023,967
Derivative financial instruments	1,059,270	900,145	10,534	1,392	-	1,971,341
Advances to banks	-	265,597	-	-	-	265,597
Advances to customers and trade bills	150,486,506	74,186,246	13,743,866	10,382,462	10,918,767	259,717,847
Financial assets measured at fair value through other comprehensive income	37,791,857	54,734,796	32,201,520	3,989,438	-	128,717,611
Other assets measured at amortised cost	-	1,576,306	-	-	-	1,576,306
Interest in a joint venture	1,856,180	-	-	-	-	1,856,180
Deferred tax assets	633,945	-	-	-	-	633,945
Fixed assets	2,219,069	-	-	-	-	2,219,069
Right-of-use assets	1,302,952	-	-	-	-	1,302,952
Other assets	2,221,924	1,826,277	25,007	5,286	1,189	4,079,683
Spot assets	230,028,105	181,601,110	54,385,492	14,605,883	13,237,085	493,857,675

(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, 2023 (continued)	HKD	USD	RMB	EUR	Others	Total
Liabilities						
Deposits and balances with banks	545,682	2,455,347	6,963,501	5,029	44,464	10,014,023
Deposits from customers	166,791,528	160,763,964	41,175,043	3,823,352	8,519,944	381,073,831
Financial assets sold under repurchase agreements	-	6,533,248	2,837,324	-	-	9,370,572
Derivative financial instruments	1,074,806	245,336	9,631	1,341	-	1,331,114
Financial liabilities designated at fair value through profit and loss	1,377,563	167,963	223,442	2,657,811	1,942,015	6,368,794
Other debt securities issued	-	-	660,058	-	-	660,058
Lease liabilities	853,346	-	-	-	-	853,346
Current tax payable	446,970	982	2	-	-	447,954
Deferred tax liabilities	18,012	-	-	-	-	18,012
Other liabilities	4,404,531	1,793,156	14,323	24,331	20,967	6,257,308
Spot liabilities	175,512,438	171,959,996	51,883,324	6,511,864	10,527,390	416,395,012
Forward purchases	42,279,715	86,936,958	46,527,340	3,279,813	10,157,495	189,181,321
Forward sales	(25,909,008)	(90,038,789)	(48,877,066)	(11,438,052)	(12,864,861)	(189,127,776)

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 various 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.

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

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis of IRRBB

Sensitivity analysis in relation to the impact of changes in interest rates on earnings, in terms of net interest income ("NII"), and economic value, in terms of economic value of equity ("EVE") is assessed regularly through a number of hypothetical interest rate shock scenarios prescribed by the HKMA. EVE represents an assessment of the present value of expected net cash flows, discounted to reflect market rates. As fluctuations in interest rates will affect earnings, they will also affect its net worth. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. In order to produce quantitative estimation on IRRBB, the Group has assumed shock scenarios to interest rate yield curves which allow changes in economic value and earnings to be computed with consideration of optionality and behavioural assumptions. These scenarios are applied to IRRBB exposures in each currency for which the Group has material positions.

The prescribed interest rate shock scenarios are provided by the HKMA in their Supervisory Policy Manual IR-1, Interest Rate Risk in the Banking Book and generally described as follows:

	Δ EVE	
	2024	2023
1. Parallel up: A constant parallel shock up across all time buckets	**(3,389,703)**	(2,724,666)
2. Parallel down: A constant parallel shock down across all time buckets	**3,662,048**	2,962,208
3. Steepener: Short rates down and long rates up	**(408,404)**	(221,612)
4. Flattener: Short rates up and long rates down	**(623,997)**	(388,643)
5. Short rate up: Rates up are greatest at shortest time bucket and diminish towards current rates in longer time buckets	**(1,616,468)**	(1,375,945)
6. Short rate down: Rates down are greatest at shortest time bucket and diminish towards current rates in longer time buckets	**1,556,211**	1,378,041

	Δ NII over the next 12 months	
	2024	2023
1. Parallel up: A constant parallel shock up across all time buckets	**(222,598)**	(104,153)
2. Parallel down: A constant parallel shock down across all time buckets	**222,598**	101,172

Negative values of ΔEVE and ΔNII indicate adverse impacts under the respective scenarios. Based on the sensitivity analysis performed by the Group for each of the prescribed interest rate shock scenarios for the annual reporting date at December 31, 2024, the maximum adverse impact in EVE and NII over the next 12 months are HK$3,390 million (2023: HK$2,725 million) and HK$223 million (2023: HK$104 million) respectively.

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.

In addition, the HKMA classified the Bank as material subsidiary of CCB resolution group and requires the Bank to comply with internal loss-absorbing capacity ("Internal LAC") requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules from 1 January 2025. In implementing Internal LAC requirements, the HKMA requires the Bank to maintain prescribed ratios of Internal LAC expressed as a percentage of risk-weighted assets, Internal LAC expressed as a percentage of exposure measure, and Internal LAC debt expressed as a percentage of Internal LAC regulatory minimum.

Throughout the years ended December 31, 2024 and December 31, 2023, 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 values 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, 2024	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Certificates of deposit	279,445	1,283,494	-	1,562,939
Other debt instruments	1,692,831	782,207	-	2,475,038
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	45,512,127	10,453,241	-	55,965,368
Certificates of deposit	-	17,325,912		17,325,912
Other debt securities	38,570,329	32,607,471	-	71,177,800
Equity shares	67,628	-	229,028	296,656
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	6,926,046	-	6,926,046
Options purchased	-	35	-	35
Interest rate swaps	-	996,263	-	996,263
Currency swaps	-	102,500	-	102,500
Equity swaps	-	72	-	72
	86,122,360	70,477,241	229,028	156,828,629
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	17,290,359	-	17,290,359
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	5,999,957	-	5,999,957
Options written	-	12,096	-	12,096
Interest rate swaps	-	380,807	-	380,807
Currency swaps	-	95,481	-	95,481
Equity swaps	-	472	-	472
	-	23,779,172	-	23,779,172

(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, 2023	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Certificates of deposit	147,460	813,414	-	960,874
Other debt instruments	696,057	249,397	-	945,454
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	41,895,806	11,520,777	-	53,416,583
Certificates of deposit		9,824,292	-	9,824,292
Other debt securities	36,247,020	28,987,852	-	65,234,872
Equity shares	56,241	-	185,623	241,864
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	948,040	-	948,040
Options purchased	-	37	-	37
Interest rate swaps	-	993,036	-	993,036
Currency swaps	-	30,087	-	30,087
Equity swaps	-	141	-	141
	79,042,584	53,367,073	185,623	132,595,280
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	6,368,794	-	6,368,794
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,042,805	-	1,042,805
Options written	-	3,259	-	3,259
Interest rate swaps	-	257,137	-	257,137
Currency swaps	-	24,743	-	24,743
Equity swaps	-	3,170	-	3,170
	-	7,699,908	-	7,699,908

There were no significant transfers between instruments in Level 1 and Level 2 for the year ended December 31, 2024 and December 31, 2023.

Reconciliation of Level 3 items

	2024	2023
Financial assets measured at FVOCI - Unlisted equity securities		
As at January 1	**185,623**	121,753
Change in fair value recognised in other comprehensive income	**43,405**	63,870
As at December 31	**229,028**	185,623

(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)

As at December 31, 2024 and December 31, 2023, financial assets categorised as Level 3 are unlisted equity securities. The fair values of unlisted equity securities are determined with reference to (i) latest market transaction price; or (ii) 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 all of the significant unobservable valuation inputs applied on the valuation techniques favourably/unfavourably increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by $11 million (2023: $9 million).

Information about Level 3 fair value measurements

As at December 31, 2024, 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)	**19.09** (2023:13.82)	The higher the ratio, the higher the fair value
		EV/EBITDA multiples	**7.61** (2023: 6.61)	The higher the multiple, the higher the fair value
		Marketability discount	**37%** (2023: 40%)	The higher the discount, the lower the fair value
		Pricing calibration	**N/A** (2023: 8%)	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, financial assets held under reverse repurchase agreements, advances to 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 which are measured at amortised cost.

i) Cash and balances with banks and central banks, placements with banks, financial assets held under reverse repurchase agreements, and 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.

ii) Advances to banks, advances to customers and trade bills

Majority of the advances to banks, 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 27 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, 2024

				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	**8,104,016**	**(79,100)**	**8,024,916**	**(43,223)**	**(1,168,905)**	**6,812,788**
Other assets	**248,939**	**(182,278)**	**66,661**	**-**	**-**	**66,661**
	8,352,955	**(261,378)**	**8,091,577**	**(43,223)**	**(1,168,905)**	**6,879,449**

As at December 31, 2023

				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	1,974,583	(3,242)	1,971,341	(43,450)	(1,083,112)	844,779
Financial assets held under reverse repurchase agreements	2,023,967	-	2,023,967	(2,023,967)	-	-
Other assets	140,959	(65,226)	75,733	-	-	75,733
	4,139,509	(68,468)	4,071,041	(2,067,417)	(1,083,112)	920,512

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

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, 2024

				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	**6,567,913**	**(79,100)**	**6,488,813**	**(43,223)**	**1,340,719**	**7,786,309**
Financial assets sold under repurchase agreements	**3,425,121**	**-**	**3,425,121**	**(3,425,121)**	**-**	**-**
Other liabilities	**195,818**	**(182,278)**	**13,540**	**-**	**-**	**13,540**
	10,188,852	**(261,378)**	**9,927,474**	**(3,468,344)**	**1,340,719**	**7,799,849**

As at December 31, 2023

				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	1,334,356	(3,242)	1,331,114	(43,450)	1,141,635	2,429,299
Financial assets sold under repurchase agreements	9,370,572	-	9,370,572	(9,370,572)	-	-
Other liabilities	65,463	(65,226)	237	-	-	237
	10,770,391	(68,468)	10,701,923	(9,414,022)	1,141,635	2,429,536

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

	2024	2023
Interest income		
Interest income calculated using the effective interest rate		
Placements and advances to banks	**3,347,844**	3,214,929
Advances to banks, advances to customers and trade bills	**14,008,079**	13,194,067
Financial assets measured at fair value through other comprehensive income	**4,865,127**	3,779,401
Other assets measured at amortised cost	**28,339**	55,788
Total interest income	**22,249,389**	20,244,185
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances with banks	**(530,425)**	(908,223)
Deposits from customers	**(13,565,154)**	(12,742,523)
Other debt securities issued	**(44,560)**	(29,729)
	(14,140,139)	(13,680,475)
Interest expense arising from lease liabilities	**(16,786)**	(16,737)
Total interest expense	**(14,156,925)**	(13,697,212)
Net interest income	**8,092,464**	6,546,973

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

12 Net fees and commission income

	2024	2023
Fees and commission income		
Investment services	**215,974**	182,272
Securities broking and related services	**99,642**	91,333
Insurance	**296,208**	232,393
Remittance, settlement and account management fees	**199,198**	159,408
Fees received from intermediate holding company and a fellow subsidiary (Note 47)	**541,219**	517,156
Trade finance	**21,592**	22,811
Cards	**123,594**	145,986
Credit facilities	**383,753**	354,595
Others	**1,708**	2,006
Total fees and commission income	**1,882,888**	1,707,960
Fees and commission expense		
Cards	**(77,067)**	(71,676)
Brokerage	**(11,522)**	(5,680)
Fees paid to intermediate holding company and fellow subsidiaries (Note 47)	**(10,270)**	(2,465)
Settlement accounts	**(16,718)**	(14,674)
Others	**(59,074)**	(62,452)
Total fees and commission expense	**(174,651)**	(156,947)
Net fees and commission income	**1,708,237**	1,551,013
Of which arise from:		
Financial assets or financial liabilities that are not measured at fair value through profit or loss		
- Fee and commission income	**528,939**	523,392
- Fee and commission expense	**77,067**	71,676
Trust and other fiduciary activities		
- Fee and commission income	**69,833**	44,917
- Fee and commission expense	**12,429**	5,246

13 Net trading income

	2024	2023
Net gains from trading activities		
Foreign exchange	**289,319**	224,178
Interest rate derivatives	**462,738**	370,467
Other debt instruments	**168,458**	108,578
Others	**(2,816)**	(2,697)
	917,699	700,526
Other trading (loss)/income		
Hedge ineffectiveness on fair value hedge	**(1,460)**	4,526
Net trading income	**916,239**	705,052

There was no net trading income relating to other assets measured at amortised cost in the current year (2023: Nil).

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

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

	2024	2023
Changes in fair value of structured deposits designated at fair value through profit or loss	**516,670**	17,475

15 Other operating income

	2024	2023
Dividend income		
Unlisted	**1,552**	5,520
Listed	**314**	272
	1,866	5,792
Operating leases income	**48,749**	36,528
Others	**19,572**	28,010
Total	**70,187**	70,330

16 Operating expenses

	2024	2023
Staff costs		
Salaries and other benefits	**1,890,185**	1,913,192
Pension and provident fund costs	**100,218**	92,818
	1,990,403	2,006,010
General and administrative expenses		
Rental expenses	**108,419**	108,001
Other premises and equipment	**131,990**	113,507
Marketing expenses	**153,998**	158,279
Auditors' remuneration	**7,002**	6,845
Professional fees	**68,969**	65,056
Other operating expenses	**232,406**	226,136
	702,784	677,824
Depreciation		
Fixed assets	**237,133**	254,101
Right-of-use assets	**237,095**	240,705
	474,228	494,806
Total	**3,167,415**	3,178,640

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

17 Net charge on expected credit losses

	2024	2023
New allowances charged, net of allowance releases	**263,549**	1,016,534
Recoveries of amounts previously written off	**(45,969)**	(58,562)
Net charge on expected credit losses	**217,580**	957,972
Attributable to:		
Balances with banks and central banks and placements with banks	**485**	(450)
Advances to banks, advances to customers and trade bills	**184,146**	892,902
Financial assets measured at fair value through other comprehensive income	**30,548**	22,450
Other assets measured at amortised cost	**(1,169)**	(2,295)
Other assets	**4,058**	1,458
Loan and other credit related commitments	**(488)**	43,907
Net charge on expected credit losses	**217,580**	957,972

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:

	2024	2023
Fees	**2,750**	2,466
Salaries	**4,838**	4,838
Discretionary bonuses	**764**	680
Contributions to provident fund	**484**	484
Total	**8,836**	8,468

(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.

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

19 Taxation

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

	2024	2023
Current tax – Hong Kong Profits Tax		
Provision for the year	**1,109,225**	841,483
Under-provision in respect of prior years	**2**	7,969
	1,109,227	849,452
Current tax – Overseas		
Provision for the year	**36**	14
Withholding tax for the year	**20,130**	14,115
	20,166	14,129
Deferred tax		
Origination and reversal of temporary differences	**(2,743)**	(68,090)
	1,126,650	795,491

The provision of Hong Kong Profits Tax for 2024 is calculated at 16.5% (2023: 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, 2024, the effective income tax rate was 15.99% (2023: 16.57%).

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

	2024	2023
Profit before taxation	**7,046,511**	4,799,716
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**1,162,674**	791,953
Income not subject to taxation	**(61,590)**	(28,341)
Expenses not deductible for taxation purposes	**5,288**	10,287
Under-provision in prior years	**2**	7,969
Overseas withholding tax	**20,130**	14,115
Other	**146**	(492)
Actual tax expense	**1,126,650**	795,491

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.

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

20 Segmental information (continued)

(a) Reportable segments (continued)

	2024					
	Corporate, institutional and commercial banking	Consumer banking	Treasury & management pool	Others	Inter-segment elimination	Total
Net interest income	3,660,385	1,670,975	2,738,218	22,886	-	8,092,464
Net fees and commission income	553,065	559,015	(34,668)	630,825	-	1,708,237
Total operating income						
– External	7,514,488	(4,600,702)	6,846,103	656,755	-	10,416,644
– Inter-segment	(3,093,802)	6,991,424	(3,897,622)	-	-	-
Total operating income	4,420,686	2,390,722	2,948,481	656,755	-	10,416,644
Depreciation	(107,739)	(279,821)	(31,638)	(55,030)	-	(474,228)
Total operating expenses	(812,445)	(1,621,299)	(188,712)	(544,959)	-	(3,167,415)
Operating profit before impairment losses	3,608,241	769,423	2,759,769	111,796	-	7,249,229
(Charge on)/release of expected credit losses and other impairment	(82,331)	(129,270)	(5,906)	(73)	-	(217,580)
Non-operating income/(losses)	(12)	(102)	-	14,976	-	14,862
Profit before taxation	3,525,898	640,051	2,753,863	126,699	-	7,046,511
As at December 31, 2024						
Total assets	286,180,259	48,610,747	179,775,430	8,507,544	(822,172)	522,251,808
Total liabilities	181,432,048	211,473,557	25,539,759	5,396,459	(822,172)	423,019,651

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

20 Segmental information (continued)

(a) Reportable segments (continued)

	2023					
	Corporate, institutional and commercial banking	Consumer banking	Treasury & management pool	Others	Inter-segment elimination	Total
Net interest income	3,110,838	1,457,912	1,956,108	22,115	-	6,546,973
Net fees and commission income	517,506	482,600	(29,844)	580,751	-	1,551,013
Total operating income						
– External	5,647,384	(3,072,820)	5,673,760	678,747	-	8,927,071
– Inter-segment	(1,875,959)	5,080,677	(3,197,137)	(7,581)	-	-
Total operating income	3,771,425	2,007,857	2,476,623	671,166	-	8,927,071
Depreciation	(108,335)	(303,247)	(25,354)	(57,869)	-	(494,805)
Total operating expenses	(837,224)	(1,593,201)	(217,203)	(531,012)	-	(3,178,640)
Operating profit before impairment losses	2,934,201	414,656	2,259,420	140,154	-	5,748,431
(Charge on)/release of expected credit losses and other impairment	(977,416)	12,642	8,257	(1,455)	-	(957,972)
Non-operating income/(losses)	-	-	-	9,257	-	9,257
Profit before taxation	1,956,785	427,298	2,267,677	147,956	-	4,799,716
As at December 31, 2023						
Total assets	249,848,516	53,622,681	183,471,194	7,818,953	(903,669)	493,857,675
Total liabilities	204,145,749	188,604,387	18,958,476	5,590,069	(903,669)	416,395,012

Certain figures have been restated to reflect transfer of client base among segments in 2024.

(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 revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location is based on the principal place of location. 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. 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 and 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, 2024						
Hong Kong (place of domicile)	**10,416,644**	**7,046,511**	**522,251,808**	**423,019,651**	**5,157,077**	**95,371,938**

	Total operating income	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
As at December 31, 2023						
Hong Kong (place of domicile)	8,927,071	4,799,716	493,857,675	416,395,012	5,378,201	91,228,446

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

21 Cash and balances with banks and central banks

	2024	2023
Cash on hand	**248,493**	182,172
Balances with banks	**4,070,084**	6,410,174
Balances with central banks	**388,079**	1,422,973
Placements with banks maturing within one month	**30,158,224**	38,939,448
Gross cash and balances with banks and central banks	**34,864,880**	46,954,767
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(957)**	(658)
Net cash and balances with banks and central banks	**34,863,923**	46,954,109

22 Placements with banks

	2024	2023
Maturing between one and twelve months	**23,511,590**	25,612,145
Maturing over twelve months	**14,023,827**	15,020,987
Gross placements with banks	**37,535,417**	40,633,132
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(578)**	(392)
Net placements with banks	**37,534,839**	40,632,740

Majority of placement with banks maturing over twelve months are on floating rate terms, bear interest at prevailing market interest rate, therefore their carrying values approximate the fair values.

23 Financial assets held under reverse repurchase agreements

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

	2024	2023
Debt securities issued by central banks	**-**	2,023,967
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**-**	-
Net financial assets held under reverse repurchase agreements	**-**	2,023,967

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

24 Advances to banks, advances to customers and trade bills

	2024	2023
Advances to banks		
Gross advances to banks	**7,321,376**	266,156
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(15,543)**	(559)
Net advances to banks	**7,305,833**	265,597
Advances to customers		
Gross advances to corporate customers	**227,166,896**	209,803,722
Gross advances to personal customers	**50,685,681**	54,200,751
Gross advances to customers	**277,852,577**	264,004,473
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(1,059,908)**	(949,189)
Stage 2: Lifetime ECL but not credit-impaired	**(530,282)**	(656,505)
Stage 3: Lifetime ECL and credit-impaired	**(576,603)**	(2,707,090)
Net advances to customers	**275,685,784**	259,691,689
Trade bills		
Gross trade bills	**2,865**	26,169
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(4)**	(11)
Stage 2: Lifetime ECL but not credit-impaired	**-**	-
Net trade bills	**2,861**	26,158
Net advances to banks, advances to customers and trade bills	**282,994,478**	259,983,444

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

24 Advances to banks, advances to customers and trade bills (continued)

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

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to banks, advances to customers and trade bills for the year ended December 31, 2024. 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, 2024	**246,034,505**	**949,759**	**15,437,310**	**656,505**	**2,824,983**	**2,707,090**	**264,296,798**	**4,313,354**
Transfer to stage 1: 12-month ECL	**4,172,179**	**167,416**	**(4,172,179)**	**(167,416)**	**-**	**-**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**(7,909,634)**	**(17,675)**	**7,909,634**	**17,675**	**-**	**-**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**(88,159)**	**(6,422)**	**(204,379)**	**(33,347)**	**292,538**	**39,769**	**-**	**-**
New financial assets originated or purchased*	**105,846,221**	**416,392**	**1,615,349**	**144,293**	**216,329**	**13,539**	**107,677,899**	**574,224**
Financial assets that have been derecognised	**(76,861,028)**	**(306,247)**	**(7,523,886)**	**(250,621)**	**(51,836)**	**(57,742)**	**(84,436,750)**	**(614,610)**
Write-offs	**-**	**-**	**-**	**-**	**(2,361,129)**	**(2,361,129)**	**(2,361,129)**	**(2,361,129)**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**	**-**	**45,969**	**-**	**45,969**
Net remeasurements (Including changes in risk parameters)	**-**	**(124,196)**	**-**	**163,240**	**-**	**190,442**	**-**	**229,486**
Foreign exchange and other movements	**-**	**(3,572)**	**-**	**(47)**	**-**	**(1,335)**	**-**	**(4,954)**
Balance as at December 31, 2024	**271,194,084**	**1,075,455**	**13,061,849**	**530,282**	**920,885**	**576,603**	**285,176,818**	**2,182,340**

* During the period, all advances to banks, 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)

24 Advances to banks, advances to customers and trade bills (continued)

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

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to banks, advances to customers and trade bills for the year ended December 31, 2023. 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, 2023	260,025,561	790,875	11,218,573	571,451	2,861,262	2,347,285	274,105,396	3,709,611
Transfer to stage 1: 12-month ECL	393,507	20,536	(393,496)	(20,525)	(11)	(11)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(7,061,802)	(17,390)	7,061,816	17,404	(14)	(14)	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(56,848)	(9,129)	(140,796)	(55,642)	197,644	64,771	-	-
New financial assets originated or purchased*	77,569,609	307,072	1,649,735	47,060	115,610	9,038	79,334,954	363,170
Financial assets that have been derecognised	(84,835,522)	(168,340)	(3,958,522)	(164,518)	(1,788)	(35,216)	(88,795,832)	(368,074)
Write-offs	-	-	-	-	(347,720)	(347,720)	(347,720)	(347,720)
Recoveries of amounts previously written-offs	-	-	-	-	-	58,562	-	58,562
Net remeasurements (Including changes in risk parameters)	-	26,254	-	261,275	-	610,395	-	897,924
Foreign exchange and other movements	-	(119)	-	-	-	-	-	(119)
Balance as at December 31, 2023	246,034,505	949,759	15,437,310	656,505	2,824,983	2,707,090	264,296,798	4,313,354

* During the period, all advances to banks, 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)

24 Advances to banks, advances to customers and trade bills (continued)

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

The retail and wholesale portfolios represented $586 million and $1,580 million or 27% and 73% (2023: $556 million and $3,758 million or 13% and 87%) respectively, of the total expected credit loss allowances on advances to banks, advances to customers and trade bills as at December 31, 2024. 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 banks, advances to customers and trade bills and ECL allowances

As at December 31, 2024 and December 31, 2023, impaired advances to banks, advances to customers and trade bills and ECL allowances are analysed as follows:

	2024	**% of gross advances**	2023	% of gross advances
Gross impaired advances	**920,885**	**0.32**	2,824,983	1.07
Less: Expected credit loss allowances	**(576,603)**		(2,707,090)	
	344,282		117,893	
Gross individually assessed impaired advances	**858,686**	**0.30**	2,766,393	1.05
Less: Expected credit loss allowances	**(523,883)**		(2,665,351)	
	334,803		101,042	
Net realisable value of collateral held against the impaired advances	**588,440**		285,574	
Covered portion of impaired advances	**359,449**		210,080	
Uncovered portion of impaired advances	**561,436**		2,614,903	
	920,885		2,824,983	

As at December 31, 2024 and December 31, 2023, there were no impaired trade bills.

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

24 Advances to banks, 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, 2024 and December 31, 2023 are as follows:

	2024	2023
Total minimum lease payments	**4,376,665**	4,473,770
Unearned future finance income on finance leases	**(267,958)**	(253,186)
Present value of the minimum lease payments	**4,108,707**	4,220,584
Expected credit loss allowances		
Stage 1: 12-month ECL	**(23,213)**	(18,566)
Stage 2: Lifetime ECL but not credit-impaired	**(65,055)**	(9,300)
Stage 3: Lifetime ECL and credit-impaired	**(20,616)**	(5,747)
Expected credit loss allowances	**(108,884)**	(33,613)
Net investments	**3,999,823**	4,186,971

The residual maturity analysis of the minimum lease payments and present value of the minimum lease payments as at December 31, 2024 and December 31, 2023 are analysed as follows:

	2024	2023
Total minimum lease payments		
Within one year	**1,261,652**	1,196,987
In the first to second year, inclusive	**956,836**	934,417
In the second to third year, inclusive	**627,168**	641,125
In the third to fourth year, inclusive	**340,464**	375,904
In the fourth to fifth year, inclusive	**146,098**	167,222
Over five years	**1,044,447**	1,158,115
	4,376,665	4,473,770

	2024	2023
Present value of the minimum lease payments		
Within one year	**1,171,782**	1,116,644
In the first to second year, inclusive	**876,725**	861,143
In the second to third year, inclusive	**568,363**	585,030
In the third to fourth year, inclusive	**308,941**	342,411
In the fourth to fifth year, inclusive	**139,306**	158,427
Over five years	**1,043,590**	1,156,929
	4,108,707	4,220,584

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

25 Financial assets measured at fair value through profit or loss

	2024	2023
Certificates of deposit issued by banks	**1,562,939**	960,874
Other debt securities issued by banks and other financial intuitions	**1,904,193**	844,554
Other debt securities issued by corporates	**115,400**	20,256
Other debt securities issued by central banks	**455,445**	80,644
	4,037,977	1,906,328
<u>Analysed by place of listing:</u>		
Listed in Hong Kong		
Certificates of deposit	**-**	547,881
Other debt securities	**137,048**	142,311
	137,048	690,192
Listed outside Hong Kong		
Other debt securities	**699,098**	214,878
	699,098	214,878
Unlisted		
Certificates of deposit	**1,562,939**	412,994
Other debt securities issued by other financial intuitions	**1,183,447**	487,364
Trading securities issued by central banks	**455,445**	80,644
Other debt securities issued by corporates	**-**	20,256
	3,201,831	1,001,258
	4,037,977	1,906,328

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

26 Financial assets measured at fair value through other comprehensive income

	2024	2023
Financial assets measured at fair value through other comprehensive income		
Debt investments		
Treasury bills/ bonds issued by central banks/governments	**55,965,368**	53,416,583
Certificates of deposit issued by banks	**17,325,912**	9,824,292
Other debt securities issued by		
Banks and non-bank financial institutions	**44,299,834**	42,163,354
Corporates	**26,877,966**	23,071,518
	144,469,080	128,475,747
Financial assets designated at fair value through other comprehensive income		
Equity investments		
Equity shares issued by		
Non-bank financial institutions	**296,656**	241,864
	144,765,736	128,717,611
Analysed by place of listing:		
Listed in Hong Kong		
Debt investments	**49,208,333**	43,911,527
Listed outside Hong Kong		
Debt investments	**43,689,628**	34,625,305
Equity investments	**67,628**	56,241
	43,757,256	34,681,546
Unlisted		
Debt investments	**51,571,119**	49,938,915
Equity investments	**229,028**	185,623
	51,800,147	50,124,538
	144,765,736	128,717,611

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, 2024.

For the year ended December 31, 2024, 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 (2023: Nil).

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

26 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, 2024	**134,499**	**18,427**	**-**	**152,926**
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	**(2)**	**2**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased	**75,403**	**1,412**	-	**76,815**
Financial assets that have been derecognised	**(38,728)**	**(13,120)**	-	**(51,848)**
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	**5,540**	**1,240**	-	**6,780**
Foreign exchange and other movements	**(1,170)**	**(29)**	-	**(1,199)**
Balance as at December 31, 2024	**175,542**	**7,932**	-	**183,474**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2023	125,227	5,249	-	130,476
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(137)	137	-	-
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased	37,277	-	-	37,277
Financial assets that have been derecognised	(22,868)	-	-	(22,868)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	(4,726)	13,038	-	8,312
Foreign exchange and other movements	(274)	3	-	(271)
Balance as at December 31, 2023	134,499	18,427	-	152,926

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

27 Other assets measured at amortised cost

	2024	2023
Other debt securities issued by		
Banks and non-bank financial institutions	**722,826**	1,577,801
	722,826	1,577,801
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(326)**	(1,495)
	722,500	1,576,306
Analysed by place of listing:		
Listed in Hong Kong	**722,826**	1,577,801
	722,826	1,577,801
Market value:		
Listed	**717,978**	1,537,968
	717,978	1,537,968

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, 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
Other assets measured at amortised cost	**717,978**	**-**	**-**	**717,978**
As at December 31, 2023				
Other assets measured at amortised cost	1,537,968	-	-	1,537,968

There were no overdue financial investments as at December 31, 2024 and December 31, 2023 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, 2024 and December 31, 2023, 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)

27 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, 2024	**1,495**	-	-	**1,495**
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	**(763)**	-	-	**(763)**
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	**(402)**	-	-	**(402)**
Foreign exchange and other movements	**(4)**	-	-	**(4)**
Balance as at December 31, 2024	**326**	-	-	**326**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2023	3,790	-	-	3,790
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	(614)	-	-	(614)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	(1,682)	-	-	(1,682)
Foreign exchange and other movements	1	-	-	1
Balance as at December 31, 2023	1,495	-	-	1,495

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

28 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 and carrying amounts of derivatives of the Group as at the reporting date.

	December 31, 2024			December 31, 2023		
	Notional amount	**Fair value assets**	**Fair value liabilities**	Notional amount	Fair value assets	Fair value liabilities
Exchange rate contracts						
Forwards	**548,565,634**	**6,926,046**	**5,999,957**	183,131,161	948,040	1,042,805
Options	**1,021,147**	**35**	**12,096**	368,336	37	3,259
Interest rate swaps	**35,527,709**	**996,263**	**380,807**	24,295,655	993,036	257,137
Currency swaps	**12,254,108**	**102,500**	**95,481**	6,050,160	30,087	24,743
Equity swaps	**15,500**	**72**	**472**	20,000	141	3,170
	597,384,098	**8,024,916**	**6,488,813**	213,865,312	1,971,341	1,331,114

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

29 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, 2024 and December 31, 2023, the amounts relating to items designated as hedging instruments are as follows:

	2024		
		Carrying Amount	
	Notional amount	**Assets**	**Liabilities**
Derivative financial instruments			
Interest rate swaps	**21,552,634**	**801,516**	**(205,324)**

	2023		
		Carrying Amount	
	Notional amount	Assets	Liabilities
Derivative financial instruments			
Interest rate swaps	19,870,502	915,048	(196,263)

As at December 31, 2024 and December 31, 2023, the amounts relating to hedged items are as follows:

	2024	
	Carrying amount	**Accumulated amount of fair value hedge adjustment included in the carrying amount**
Assets:		
Financial assets measured at FVOCI	**15,873,331**	**(571,280)**
Liabilities:		
Hedged Deposit	**(5,193,301)**	**(4,898)**

	2023	
	Carrying amount	Accumulated amount of fair value hedge adjustment included in the carrying amount
Assets:		
Financial assets measured at FVOCI	13,930,531	(644,625)
Liabilities:		
Hedged Deposit	(5,173,155)	7,043

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

29 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, 2024 and December 31, 2023, used as the basis for recognising ineffectiveness:

		2024		
		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	**73,345**	**(74,781)**	**(1,436)**
Liabilities				
Hedged Deposit	Interest rate swaps	**(2,145)**	**2,121**	**(24)**
Net gains/(losses) from hedging activities		**71,200**	**(72,660)**	**(1,460)**

		2023		
		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	231,941	(227,453)	4,488
Liabilities				
Hedged Deposit	Interest rate swaps	7,043	(7,005)	38
Net gains/(losses) from hedging activities		238,984	(234,458)	4,526

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, 2024						
Derivative financial instruments						
Interest rate swaps	**77,649**	**4,986,809**	**1,474,737**	**12,284,193**	**2,729,246**	**21,552,634**
As at December 31, 2023						
Derivative financial instruments						
Interest rate swaps	147,584	4,688,374	1,041,650	11,564,388	2,428,506	19,870,502

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

30 Subsidiaries

Particulars of the Group's subsidiaries as at December 31, 2024 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.

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

31 Interest in a joint venture

	2024	2023
As at January 1	**1,856,180**	1,871,923
Share of profits	**14,982**	9,257
Dividend	**(14,000)**	(25,000)
As at December 31	**1,857,162**	1,856,180

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, 2024 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 is holding property for the Bank's operation. It is a private company and there is no quoted market price available for its shares. As of December 31, 2024, the outstanding bank borrowings and shareholder's loans to Diamond String Limited are HK$1.29 billion (2023: HK$1.29 billion) and corresponding interest income in 2024 are HK$77.37 million (2023:HK$81.11 million).

There was dividend of $14 million paid by Diamond String Limited to the Group for the year ended December 31, 2024 (2023: $25 million).

(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, 2024 and December 31, 2023.

(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, 2024 and December 31, 2023 is set out as below:

	2024	2023
Current		
Other current assets	**508,164**	447,768
Total current assets	**508,164**	447,768
Financial liabilities	**(43,585)**	(51,622)
Total current liabilities	**(43,585)**	(51,622)
Non-current		
Financial assets	**59,600**	59,448
Other assets	**1,281,354**	1,344,693
Total non-current assets	**1,340,954**	1,404,141
Financial liabilities	**(1,741,311)**	(1,739,360)
Other liabilities	**(37,733)**	(36,402)
Total non-current liabilities	**(1,779,044)**	(1,775,762)
Net assets	**26,489**	24,525

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

31 Interest in a joint venture (continued)

(c) Summarised statement of comprehensive income for the year ended December 31, 2024 and December 31, 2023

	2024	2023
Revenue	**228,713**	225,283
Depreciation and amortisation	**(56,148)**	(55,906)
Interest income	**3,283**	3,300
Interest expense	**(100,362)**	(105,236)
Profit before taxation	**40,763**	27,034
Income tax expense	**(10,799)**	(8,519)
Profit for the year & total comprehensive income	**29,964**	18,515

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

Summarised financial information	**2024**	2023
Net assets as at January 1	**24,525**	56,010
Profit for the year	**29,964**	18,515
Dividend paid	**(28,000)**	(50,000)
Net assets as at December 31	**26,489**	24,525
Interest in a joint venture @ 50%	**13,244**	12,262
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	**1,857,162**	1,856,180

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

32 Income tax in the consolidated statement of financial position

(a) Current tax payable

	2024	2023
Provision for Hong Kong Profits Tax for the year	**1,109,225**	841,483
Provisional Profits Tax paid	**(846,172)**	(476,625)
Balance of Profits Tax provision relating to prior years	**77,629**	82,112
	340,682	446,970
Provision for tax in the Mainland China	**7,902**	984
Current tax payable	**348,584**	447,954

(b) Deferred tax assets and deferred tax liabilities

	2024	2023
Deferred tax assets recognised in the consolidated statement of financial position	**534,778**	633,945

	2024	2023
Deferred tax liabilities recognised in the consolidated statement of financial position	**17,850**	18,012

As at December 31, 2024 and December 31, 2023, 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, 2023	278,460	(22,194)	395,985	139,605	34,354	(156)	826,054
Charged to the consolidated statement of profit or loss	50,946	5,700	-	10,306	-	-	66,952
Credited to the consolidated statement of other comprehensive income	-	-	(224,707)	-	-	-	(224,707)
Other	-	-	-	-	(34,354)	-	(34,354)
As at December 31, 2023 & January 1, 2024	**329,406**	**(16,494)**	**171,278**	**149,911**	**-**	**(156)**	**633,945**
Charged to the consolidated statement of profit or loss	**4,750**	**1,860**	**-**	**(4,029)**	**-**	**-**	**2,581**
Credited to the consolidated statement of other comprehensive income	**-**	**-**	**(101,748)**	**-**	**-**	**-**	**(101,748)**
As at December 31, 2024	**334,156**	**(14,634)**	**69,530**	**145,882**	**-**	**(156)**	**534,778**

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, 2023	(3,710)	3,346	(18,786)	(19,150)
Charged to the consolidated statement of profit or loss	132	-	1,006	1,138
As at December 31, 2023 & January 1, 2024	**(3,578)**	**3,346**	**(17,780)**	**(18,012)**
Debited to the consolidated statement of profit or loss	**-**	**-**	**162**	**162**
As at December 31, 2024	**(3,578)**	**3,346**	**(17,618)**	**(17,850)**

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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, 2024	**2,818,069**	**657,851**	**1,663,020**	**5,138,940**
Additions	**-**	**27,617**	**113,932**	**141,549**
Disposals	**-**	**(16,609)**	**(19,258)**	**(35,867)**
As at December 31, 2024	**2,818,069**	**668,859**	**1,757,694**	**5,244,622**
Accumulated depreciation:				
As at January 1, 2024	**914,157**	**530,811**	**1,474,903**	**2,919,871**
Charge for the year	**77,673**	**41,061**	**118,399**	**237,133**
Disposals	**-**	**(16,609)**	**(19,138)**	**(35,747)**
As at December 31, 2024	**991,830**	**555,263**	**1,574,164**	**3,121,257**
Net book value:				
As at December 31, 2024	**1,826,239**	**113,596**	**183,530**	**2,123,365**

	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:				
As at January 1, 2023	2,818,069	610,427	1,567,259	4,995,755
Additions	-	58,273	112,345	170,618
Disposals	-	(10,849)	(16,584)	(27,433)
As at December 31, 2023	2,818,069	657,851	1,663,020	5,138,940
Accumulated depreciation:				
As at January 1, 2023	836,403	503,456	1,353,229	2,693,088
Charge for the year	77,754	38,204	138,143	254,101
Disposals	-	(10,849)	(16,469)	(27,318)
As at December 31, 2023	914,157	530,811	1,474,903	2,919,871
Net book value:				
As at December 31, 2023	1,903,912	127,040	188,117	2,219,069

(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, 2024	**521,506**	**780,980**	**466**	**1,302,952**
Additions	**-**	**95,443**	**27,028**	**122,471**
Disposals	**-**	**(11,778)**	**-**	**(11,778)**
Depreciation charge for the year	**(2,015)**	**(225,674)**	**(9,406)**	**(237,095)**
As at December 31, 2024	**519,491**	**638,971**	**18,088**	**1,176,550**

	Leasehold land	Buildings	Equipment	Total
As at January 1, 2023	523,521	895,712	8,897	1,428,130
Additions	-	115,451	76	115,527
Depreciation charge for the year	(2,015)	(230,183)	(8,507)	(240,705)
As at December 31, 2023	521,506	780,980	466	1,302,952

35 Lease liabilities

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

	2024	2023
As at January 1	**853,346**	978,624
Additions	**120,357**	111,802
Disposals	**(10,718)**	-
Interest expense	**16,786**	16,737
Payments	**(255,228)**	(253,817)
As at December 31	**724,543**	853,346
Total lease liabilities		
Current	**219,208**	225,660
Non-current	**505,335**	627,686
	724,543	853,346

(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, 2024 and December 31, 2023, 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, 2024 and December 31, 2023, the Group had no future lease payments for lease committed but not yet commenced falling due.

(b) Maturity analysis – contractual undiscounted cash flows

	As at December 31	
	2024	2023
Within one year	**232,195**	240,507
In the first to second year, inclusive	**199,098**	199,572
In the second to third year, inclusive	**149,500**	158,931
In the third to fourth year, inclusive	**99,363**	126,888
In the fourth to fifth year, inclusive	**22,800**	92,352
Over five years	**51,055**	73,855
Total undiscounted cash flows	**754,011**	892,105

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

	For the year ended December 31	
	2024	2023
Interest expenses on leases liabilities (Note 11)	**16,786**	16,737
Variable lease payments not included in the measurement of lease liabilities		
Expenses relating to short term leases	**172**	94
Expenses relating to leases of low value assets	**305**	205

36 Other assets

	2024	2023
Settlement accounts	**865,123**	160,378
Customer liability under acceptances	**255,553**	211,193
Accounts receivables	**614,180**	2,064,304
Refundable deposits	**1,499,909**	1,298,726
Prepaid expenses	**138,411**	181,581
Intangible assets	**94,679**	1,955
Others	**147,729**	161,546
	3,615,584	4,079,683

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

For the year ended December 31, 2024 and December 31, 2023, there were no significant movements in the gross balances of other assets that resulted in significant changes to the expected credit loss allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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, 2024	**1,195**	**-**	**-**	**1,195**
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	**75**	**-**	**-**	**75**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**(3,983)**	**(3,983)**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**-**	**-**	**3,983**	**3,983**
Foreign exchange and other movements	**-**	**-**	**-**	**-**
Balance as at December 31, 2024	**1,270**	**-**	**-**	**1,270**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2023	886	-	-	886
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	309	-	-	309
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	(1,149)	(1,149)
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	-	-	1,149	1,149
Foreign exchange and other movements	-	-	-	-
Balance as at December 31, 2023	1,195	-	-	1,195

* During 2024 and 2023, 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

	2024	2023
Deposits from banks	**3,606,138**	3,658,036
Takings from banks	**10,136,504**	6,355,987
	13,742,642	10,014,023

38 Deposits from customers

	2024	2023
Demand deposits and current accounts	**19,224,722**	21,170,990
Savings deposits	**97,283,929**	109,833,583
Time and call deposits	**254,518,457**	248,885,771
Other deposits	**734,666**	1,183,487
	371,761,774	381,073,831

39 Financial assets sold under repurchase agreements

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

	2024	2023
Debt investments		
Debt securities issued by		
Governments	**300,000**	1,313,735
Banks and non-bank financial institutions	**2,517,158**	5,921,181
Corporates	**607,963**	2,135,656
	3,425,121	9,370,572

40 Financial liabilities designated at fair value through profit or loss

	2024	2023
Structured deposits	**17,290,359**	6,368,794

As at December 31, 2024, the difference between the carrying amount of financial liabilities designated at FVPL and the amount of the Group would be contractually required to pay at maturity to the holders is HK$132 million (2023: 84 million). 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

	2024	2023
Other debt securities issued at amortised cost	**3,195,926**	660,058

As at December 31, 2024, the fair values of other debt securities issued at amortised cost were $3,217 million (2023: $667 million). The fair value measurement methodology is disclosed in Note 9(a).

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

42 Other liabilities

	2024	2023
Settlement accounts	**284,449**	176,003
Accounts payables	**341,957**	372,740
Accrued interest payables	**-**	2
Acceptances outstanding	**255,553**	211,193
Accrued salaries and welfare	**896,135**	907,531
Amounts due to intermediate holding companies	**2,644,932**	2,636,814
Debt securities trade date payables	**-**	356,099
Accrued expenses	**38,573**	92,633
Cash collateral received (Note 10(a))	**1,168,905**	1,083,112
Expected credit loss allowances on loan and other credit related commitments (Note 48(b))	**227,961**	228,449
Others	**165,574**	192,732
	6,024,039	6,257,308

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

43 Share capital

	2024	2023
Issued and fully paid		
162,776,068 (2023: 162,776,068) HKD ordinary shares	**6,511,043**	6,511,043
440,000,000 (2023: 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**	**2024**	2023
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
USD1.0 billion	Fixed rate perpetual capital instrument callable from November 8, 2029	**7,773,550**	-
USD1.0 billion	Fixed rate perpetual capital instrument callable from December 16, 2029	**7,773,955**	-
		23,325,106	7,777,601

On December 16, 2024 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD1.0 billion (equivalent to HK$7.77 billion) net of related issuance costs. The additional tier 1 capital instruments are undated and bear a 5.579% coupon until the first call date on December 16, 2029. 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 November 8, 2024 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD1.0 billion (equivalent to HK$7.77 billion) net of related issuance costs. The additional tier 1 capital instruments are undated and bear a 5.705% coupon until the first call date on November 8, 2029. 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 HK$3.88 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.

On December 13, 2019 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD0.5 billion (equivalent to HK$3.90 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. The coupon rate reset to 6.75% on December 13, 2024.

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 $753 million (2023: $573 million) 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.

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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, 2024 and December 31, 2023

	2024	2023
ASSETS		
Cash and balances with banks and central banks	**34,863,843**	46,954,059
Placements with banks	**37,534,839**	40,632,740
Financial assets measured at fair value through profit or loss	**4,037,977**	1,906,328
Financial assets held under reverse repurchase agreements	**-**	2,023,967
Derivative financial instruments	**8,024,916**	1,971,341
Advances to banks	**7,305,833**	265,597
Advances to customers and trade bills	**275,688,645**	259,717,847
Financial assets measured at fair value through other comprehensive income	**144,765,736**	128,717,611
Other assets measured at amortised cost	**722,500**	1,576,306
Investments in subsidiaries	**526,000**	526,000
Deferred tax assets	**534,778**	633,945
Fixed assets	**1,899,421**	1,988,731
Right-of-use assets	**703,605**	829,481
Other assets	**3,747,632**	4,117,719
Total assets	**520,355,725**	491,861,672
LIABILITIES		
Deposits and balances of banks	**13,742,642**	10,014,023
Deposits from customers	**372,582,577**	381,976,637
Financial assets sold under repurchase agreements	**3,425,121**	9,370,572
Derivative financial instruments	**6,488,813**	1,331,114
Financial liabilities designated at fair value through profit or loss	**17,290,360**	6,368,794
Other debt securities issued	**3,195,926**	660,058
Lease liabilities	**724,504**	853,332
Current tax payable	**337,439**	434,882
Other liabilities	**3,521,781**	3,666,961
Total liabilities	**421,309,163**	414,676,373
EQUITY		
Share capital	**28,827,843**	28,827,843
Other equity instruments	**23,325,106**	7,777,601
Reserves	**46,893,613**	40,579,855
Total equity	**99,046,562**	77,185,299
Total equity and liabilities	**520,355,725**	491,861,672

Approved and authorised for issue by the Board of Directors on March 21, 2025.

ZHANG Jun
Vice Chairman, Executive Director and Chief Executive Officer

KWOK Pui Fong Miranda JP
Non-Executive Director

(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, 2024	**750,956**	**(458,060)**	**572,887**	**15,913**	**62,262**	**39,635,897**	**40,579,855**
Changes in equity for 2024:							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**6,011,632**	**6,011,632**
Other comprehensive income, net of tax	**-**	**594,103**	**-**	**-**	**-**	**-**	**594,103**
Total comprehensive income for the year	**-**	**594,103**	**-**	**-**	**-**	**6,011,632**	**6,605,735**
Coupon paid for other equity instruments	**-**	**-**	**-**	**-**	**-**	**(291,977)**	**(291,977)**
Regulatory reserve	**-**	**-**	**180,544**	**-**	**-**	**(180,544)**	**-**
Balance as at December 31, 2024	**750,956**	**136,043**	**753,431**	**15,913**	**62,262**	**45,175,008**	**46,893,613**

	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at January 1, 2023	750,956	(1,694,648)	909,600	15,913	62,262	35,563,064	35,607,147
Changes in equity for 2023:							
Profit for the year	-	-	-	-	-	4,029,266	4,029,266
Other comprehensive income, net of tax	-	1,236,588	-	-	-	-	1,236,588
Total comprehensive income for the year	-	1,236,588	-	-	-	4,029,266	5,265,854
Coupon paid for other equity instruments	-	-	-	-	-	(293,146)	(293,146)
Regulatory reserve	-	-	(336,713)	-	-	336,713	-
Balance as at December 31, 2023	750,956	(458,060)	572,887	15,913	62,262	39,635,897	40,579,855

(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 52)		Fellow subsidiaries		Joint venture	
	2024	2023	**2024**	2023	**2024**	2023
Interest income	**1,841,015**	1,709,728	**62,472**	62,042	**-**	-
Interest expense	**192,267**	330,698	**103,587**	40,453	**5,101**	5,831
Fees and commission income (Note 12)	**541,219**	517,156	**-**	-	**-**	-
Fees and commission expense (Note 12)	**10,270**	2,465	**-**	-	**-**	-
Other operating income	**38,450**	20,571	**14,964**	5,346	**-**	-
Operating expenses	**1,958**	2,025	**-**	-	**95,039**	117,446

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 52)		Fellow subsidiaries		Joint venture	
	2024	2023	**2024**	2023	**2024**	2023
Amounts due from:						
Cash and balances with banks and central banks	**1,165,303**	4,125,151	**-**	109	**-**	-
Placements with banks	**34,227,582**	40,581,474	**-**	-	**-**	-
Advances to customers and trade bills	**-**	-	**2,180,466**	-	**-**	-
Financial assets measured at fair value through other comprehensive income	**-**	-	-	237,495	**-**	-
Derivative financial instruments	**4,760,864**	101,231	-	-	**-**	-
Right-of-use assets	**-**	-		-	**325,506**	542,554
Other assets	**667,765**	1,623,861	**24**	23		-
Amounts due to:						
Deposits and balances with banks	**7,003,740**	2,345,775	**40,861**	13	**-**	-
Deposits from customers	**-**	-	**3,166,108**	1,742,406	**-**	-
Derivative financial instruments	**4,476,031**	226,789	**-**	-	**-**	-
Financial assets sold under repurchase agreements	**2,517,158**	1,523,590	**-**	-	**-**	-
Lease liabilities	**-**	-		-	**372,390**	428,918
Other liabilities	**2,663,057**	2,644,917	**4,192**	-	**24,648**	20,147
Contingencies and commitments:						
Transaction-related contingencies	**38,554**	42,299	**-**	-	**-**	-
Other commitments	**-**	-	**839,955**	1,537,044	**-**	-
Derivative financial instruments: (notional amount)						
Exchange rate contracts	**537,550,018**	28,920,021	**-**	-	**-**	-
Interest rate swaps	**621,184**	818,602	**-**	-	**-**	-

During 2024, the Group sold certain advances to customers of HK$1,600 million (2023: HK$4,493 million), to its intermediate holding company at agreed price. There is no purchase of advances to customers from intermediate holding company in 2024 and 2023.

(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.

	2024	2023
Loans	**27,829**	40,506
Interest income earned	**809**	872
Deposits	**208,217**	243,208
Interest expense paid	**8,791**	7,044
Compensation - salaries and other short-term benefits	**28,855**	27,167

(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:

	2024	2023
Aggregate amount in respect of principal and interest as at December 31	**18,712**	28,878
The maximum aggregate amount outstanding in respect of principal and interest during the year	**30,712**	31,783

(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:

	2024	2023
Direct credit substitutes	**35,231**	56,451
Transaction-related contingencies	**3,607,576**	3,173,537
Trade-related contingencies	**759,719**	1,283,388
Other commitments		
which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**48,930,640**	51,009,753
with an original maturity under one year	**2,093,219**	1,117,015
with an original maturity over one year	**39,945,553**	34,588,302
	95,371,938	91,228,446

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 5 years (2023: 1 and 5 years). Rental income recognised by the Group for the year ended December 31, 2024 was $49 million (2023: $37 million).

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

	2024	2023
Within one year	**21,684**	34,734
After one year but within two years, inclusive	**4,966**	18,320
After two years but within three years, inclusive	**410**	4,966
After three years but within four years, inclusive	**-**	410
	27,060	58,430

(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, 2024	**194,109**	**34,340**	**-**	**228,449**
Transfer to stage 1: 12-month ECL	**18,926**	**(18,926)**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**(1,202)**	**1,202**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**(234)**	**(279)**	**513**	**-**
New commitments originated or purchased*	**86,403**	**1,393**	**-**	**87,796**
Commitments that have been derecognised	**(51,376)**	**(4,104)**	**-**	**(55,480)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**(43,487)**	**12,500**	**(513)**	**(31,500)**
Foreign exchange and other movements	**(1,304)**	**-**	**-**	**(1,304)**
Balance as at December 31, 2024	**201,835**	**26,126**	**-**	**227,961**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2023	149,309	35,233	-	184,542
Transfer to stage 1: 12-month ECL	16,180	(16,180)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(880)	880	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(208)	(239)	447	-
New commitments originated or purchased*	42,978	1,276	-	44,254
Commitments that have been derecognised	(27,952)	(7,508)	-	(35,460)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	15,129	20,880	(447)	35,562
Foreign exchange and other movements	(447)	(2)	-	(449)
Balance as at December 31, 2023	194,109	34,340	-	228,449

* During 2024 and 2023, 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:

	2024	2023
Expenditure contracted but not provided for	**128,861**	103,908
Expenditure authorised but not contracted for	**29,273**	20,976
	158,134	124,884

50 Notes to consolidated statement of cash flows

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

	2024	2023
Operating activities		
Operating profit	**7,031,649**	4,790,459
Adjustments for:		
Dividend income	**(1,866)**	(5,792)
Depreciation	**474,228**	494,806
Net charges on expected credit losses	**217,580**	957,972
Written-off of loans and advances	**(2,361,129)**	(289,158)
Amortisation of premium/discount on financial assets measured at fair value through other comprehensive income	**(1,672,526)**	(1,077,116)
Amortisation of premium/discount on other assets measured at amortised cost	**-**	(665)
Amortisation of discount on other debt securities issued	**(3,495)**	417
Fair value adjustments	**529,482**	14,507
Net gains from disposal of financial assets measured at fair value through other comprehensive income	**(146,187)**	(71,178)
Net gain attributable to the hedged risk in respect of the hedged item under fair value hedge	**(73,345)**	(231,941)
Effect of foreign exchange rate changes	**1,155,070**	(1,149,194)
	5,149,461	3,433,117
(Increase)/decrease in operating assets		
Balances and placements with banks with original maturity beyond three months and balances with central banks	**(6,586,794)**	(5,347,517)
Gross advances to banks, advances to customers and trade bills	**(20,880,020)**	9,808,597
Financial assets measured at fair value through profit or loss with original maturity beyond three months	**(2,667,854)**	814,871
Derivative financial instruments	**(6,053,575)**	(23,953)
Other assets	**460,041**	(1,881,257)
	(35,728,202)	3,370,741
Increase/(decrease) in operating liabilities		
Deposits and balance with banks	**3,728,619**	(4,331,980)
Financial assets sold under repurchase agreements	**(5,945,451)**	643,047
Deposits from customers	**(9,312,057)**	28,456,677
Derivative financial instruments	**5,157,699**	487,169
Other debt securities issued	**2,539,363**	(19,603)
Financial liabilities designated at fair value through profit or loss	**10,404,896**	6,181,387
Other liabilities	**(232,781)**	(3,248,811)
	6,340,288	28,167,886
	(24,238,453)	34,971,744

(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

	2024	2023
Gross cash and balances with banks and central banks	**34,752,533**	46,954,750
Placements with banks with original maturity within three months	**2,701,158**	12,272,928
Financial assets held under reverse repurchase agreements	**-**	2,023,967
Financial assets measured at fair value through profit or loss with original maturity within three months	**93,466**	616,859
Financial assets measured at fair value through other comprehensive income with original maturity within three months	**11,095,968**	11,313,228
	48,643,125	73,181,732

(c) Reconciliation with the consolidated statement of financial position

	2024	2023
Cash and balances with banks and central banks (Note 21)	**34,863,923**	46,954,109
Placements with banks (Note 22)	**37,534,839**	40,632,740
Financial assets held under reverse repurchase agreements (Note 23)	**-**	2,023,967
Financial assets measured at fair value through profit or loss (Note 25)	**4,037,977**	1,906,328
Financial assets measured at fair value through other comprehensive income (Note 26)	**144,765,736**	128,717,611
Other assets measured at amortised cost (Note 27)	**722,500**	1,576,306
Amounts shown in consolidated statement of financial position	**221,924,975**	221,811,061
Less: Amounts with an original maturity beyond three months		
Placements with banks	**(34,946,606)**	(28,359,812)
Financial assets measured at fair value through profit or loss	**(3,944,511)**	(1,289,469)
Financial assets measured at fair value through other comprehensive income	**(133,669,768)**	(117,405,674)
Other assets measured at amortised cost	**(722,500)**	(1,577,801)
Expected credit loss allowances	**1,535**	3,427
Cash and cash equivalents in the consolidated statement of cash flows	**48,643,125**	73,181,732

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

	Lease liabilities
Balance as at January 1, 2024	**853,346**
Cash outflow from financing activities	**(238,442)**
Interest expense	**16,786**
Interest paid classified as operating cash flow	**(16,786)**
Non-cash movement related to lease liabilities	**109,639**
Balance as at December 31, 2024	**724,543**

	Lease liabilities
Balance as at January 1, 2023	978,624
Cash outflow from financing activities	(237,080)
Interest expense	16,737
Interest paid classified as operating cash flow	(16,737)
Non-cash movement related to lease liabilities	111,802
Balance as at December 31, 2023	853,346

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)

(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 2024. During the year, the Group had non-cash net additions to right-of-use assets of $111 million (2023: $116 million) and non-cash movement related to lease liabilities as disclosed in Note 50(d).

51 Assets pledged, assets transferred and collateral received

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

	2024		2023	
	Carrying amount of transferred assets	**Carrying amount of associated liabilities (Note 39)**	Carrying amount of transferred assets	Carrying amount of associated liabilities (Note 39)
Repurchase agreements	**3,711,489**	**3,425,121**	10,180,130	9,370,572

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.

Collateral received

Assets accepted as collateral related primarily to reverse repurchase agreements and derivative margining. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements and derivative margining.

At as December 31, 2024, the fair value of collateral permitted to sell or repledge in the absence of default is HK$Nil (2023: 2,085 million). As at December 31, 2024 and December 31, 2023, there was no collateral actually sold or repledged.

52 Immediate parent and ultimate controlling party

At as December 31, 2024 and December 31, 2023, 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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2024
(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 banks, advances to customers and trade bills overdue for more than three months:

	As at December 31, 2024		As at December 31, 2023	
		% on total advances to banks and customers		% on total advances to banks and customers
Six months or less but over three months	**75,136**	**0.03**	540,591	0.20
One year or less but over six months	**104,494**	**0.04**	395,238	0.15
Over one year	**357,252**	**0.13**	634,336	0.24
Total gross amount of advances overdue for more than three months	**536,882**	**0.20**	1,570,165	0.59
Expected credit loss allowances made in respect of the above overdue advances	**433,552**		1,484,278	
Net realisable value of collateral held against the overdue advances	**170,651**		160,525	
Covered portion of overdue advances	**131,234**		127,195	
Uncovered portion of overdue advances	**405,648**		1,442,970	
	536,882		1,570,165	

As at December 31, 2024, collaterals held with respect of overdue advances to customers are mainly commercial properties and residential properties (2023: commercial properties and residential properties).

As at December 31, 2024 and December 31, 2023, there were no advances to banks and trade bills overdue for more than three months.

(b) Rescheduled advances to banks, advances to customers and trade bills:

	2024		2023	
		% on total advances to banks and customers		% on total advances to banks customers
Rescheduled advances to customers	**54,442**	**0.02**	58,191	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, 2024 and December 31, 2023, there were no rescheduled advances to banks and trade bills.

(c) Other overdue and rescheduled assets

As at December 31, 2024 and December 31, 2023, there were no other overdue and rescheduled assets, other than the above mentioned.

2 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 under the Board of Directors, namely Executive Committee, Strategy and Corporate Governance Committee, Audit Committee, Nomination and Remuneration Committee and Risk Committee. There are nine key functional committees, of which Asset and Liability Committee, Fintech and Digitalisation Promotion Committee, Safety Production Committee, Accountability Committee, Corporate Banking Committee and Retail Banking Committee directly report to Executive Committee, while Risk Management Committee, Credit Committee and Internal Control, Compliance and Operations Committee 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 2024.

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;
- Within the scope of shareholder's authorization, 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 and withdrawal of subsidiaries / offices;
- According to the shareholder's requirements, appointing or ceasing to appoint senior management members and determining their remuneration, reward and penalty;
- Overseeing the appointment and cessation of other senior management member, key personnel and risk control personnel of the Bank, and their distribution proposal of remuneration and any subsequent adjustments, to ensure that they are fit and proper to manage and supervise the key business and internal control functions;
- 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;
- Reviewing and supervising matters relating to major related party transactions;
- 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, senior management members, the Board of Directors and its individual Special Committee;

2 Corporate governance (continued)

(a) Board of Directors (continued)

- Regularly evaluating and continuously improving corporate governance of the Bank, and conducting a regular evaluation of the performance of the Board of Directors;
- Assessing the ongoing suitability of each director at least annually, taking into account the director's performance of duties at the Board of Directors and the respective special committees who is sitting, whether the director could devote sufficient time, and whether the director is involved in any potential conflicts of interest, etc., and other relevant factors as appropriate, where the performance of individual director does not meet expectations, if there is involvement of 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 formulating other systems, rules and measures of the Board of Directors and their amendments;
- 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;
- Formulating the Bank's regulatory disclosures policy and supervise the implementation of such policy;
- Considering to delegate all or any part of the authorities of operation and management granted to the Bank through "Shareholder Proposal" to the Chief Executive Officer of the Bank and allowing the Chief Executive Officer of the Bank to further delegate all or part of his/her relevant authority to other personnel of the Bank provided that the aforesaid delegation should be made in accordance with the mechanism set up in the relevant policy or by way of authorisation document; authorizing the Chief Executive Officer to execute the adjusted authorization after receiving the "Notice of Adjustment to the Shareholder Proposal" from the shareholder and reporting such adjustment to the Executive Committee, provided that if the relevant adjustment of authorization is material (e.g. increasing the type of authorization or authority power, etc.), such material adjustment of authorization should be reported to the Board; 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, 2024, the Board of Directors comprises an Executive Director and six Non-executive Directors. Of the six 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 diversified 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.

2 Corporate governance (continued)

(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 / offices establishment and withdrawal;
    - 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;
    - The direction of climate-related development strategies, risks and opportunities and report its working progress and performance;
    - Conduct preliminary review of matters relating to major related party transactions; and
    - Other matters requiring approval by the Board of Directors.
  - Review and approve the composition and terms of reference of functional committees directly reporting to Executive Committee, including:
    - Asset and Liability Committee;
    - Fintech and Digitalisation Promotion Committee;
    - Safety Production Committee;
    - Accountability Committee;
    - Corporate Banking Committee
    - Retail Banking Committee
    - Risk Management Committee;
    - Credit 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 matters related to the Resolution Planning; and
  - Other matters assigned by the Board of Directors for review or handling.

2 Corporate governance (continued)

(b) Executive Committee (continued)

- 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;
  - Direct and supervise major issues related to the management of subsidiaries;
  - Review or approve the Bank's major management systems and regulations, including but not limited to the systems of the committees;
  - 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;
  - Review the proposal of the independent non-executive directors nominated by the Bank, the appointment and cessation of other senior management members, General Manager, Deputy General Manager, and ad-hoc staff of the Bank, and the adjustments of division of responsibilities among members of senior management;
  - Investigate and recommend to the Risk Committee/Audit Committee the appointment and cessation of heads of internal control functions of the Bank;
  - 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 14 meetings in 2024.

2 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 2024.

(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 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 cessation 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;

2 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 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, its frequency, internal audit plan and the needs for human and financial resources after identifying the coverage of business risks to ensure audit coverage is appropriate to risk exposures and resources;
- 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 auditors 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 2024.

(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 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 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 of directors, and submitting it to the Board of Directors for review;

2 Corporate governance (continued)

(e) Nomination and Remuneration Committee (continued)

- Organising performance evaluation on the senior management members, proposing the plan of distribution of remuneration and any subsequent adjustments for these senior management members, and submitting it to the Board of Directors for approval;
- Overseeing the performance evaluation on other senior management members, key personnel and risk control personnel of the Bank, and approving their distribution proposal of remuneration and any subsequent adjustments;
- 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 4 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), taking into account each of the director's performance of duties at the Board of Directors and the respective special committees who is sitting, whether the director could devote sufficient time, and whether the director is involved in any potential conflicts of interest, etc.. 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 members; strategic personnel structure adjustment plans; or personnel adjustment plans that required to be submitted to the regulatory authorities;
- Overseeing the appointment and cessation of other senior management members, key personnel and risk control personnel of the Bank to ensure that they are fit and proper to manage and supervise the key business and internal control functions;
- 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 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;
- Formulating the manpower plans, and submitting them to the Board of Directors for approval, and to ensure sound mechanism for the Board to track and reviewing the effectiveness of the plans; and
- Other matters authorised by the Board of Directors.

2 Corporate governance (continued)

(e) Nomination and Remuneration Committee (continued)

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 2024.

(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 systems and procedures be in place for identifying, measuring, monitoring, evaluating, reporting and controlling connected party exposures, to ensure that the Bank complies with legal obligations under the Banking (Exposure Limits) Rules in relation to exposures to connected parties and ensuring an appropriate balance between the benefits and risks of intragroup transactions and exposures;
- 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;
- Approving the appointment and cessation of heads of internal control functions (excluding the Head of Internal Audit Division) of the Bank;
- Evaluating relevant work of heads of internal control functions (excluding the Head of Internal Audit Division);
- 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.

2 Corporate governance (continued)

(f) Risk Committee (continued)

- 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;
- 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;
- Reviewing and recommending to the Board of Directors to approve the establishment of the Bank's policies related to climate risks, and overseeing its implementation and regularly reviewing the policies to ensure the Bank's climate policies have been effectively implemented and met the relevant climate policies and targets at the time being;
- Supervising the compliance of core businesses, management systems and major operation activities of the Bank;
- Reviewing the compliance policies and receiving report on implementation, to ensure that compliance risks are effectively managed;
- Reviewing matters relating to major related party transaction and giving opinions to the Board;
- Providing guideline to the formulation of the compliance risk framework of the Bank;
- Supervising and evaluating the setting, organization and effect of Legal and Compliance Division, and making recommendations for improvement;
- Reviewing the on-site examination report of Hong Kong Monetary Authority and reporting the significant findings;
- 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 Hong Kong Monetary Authority 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 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 Division, Chief Financial Officer, Chief Compliance Officer, Chief Risk Officer, Head of Risk Management Division, Head of Legal and Compliance Division, Head of Internal Audit Division, Head of Compliance and Head of Financial Crime Compliance of the Bank shall sit in on meetings of the Risk Committee as ex officio members. The Committee held four meetings in 2024.

2 Corporate governance (continued)

(g) 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 Vice Chairman and Chief Executive Officer as the Chairperson, ,Deputy Chief Executives, Chief Banking Officer, Chief Operating Officer, the Head of Finance Division, Risk Management Division, Credit Division, Credit Management Department, Treasury Division, Data Management Division, Digital Banking Division, Corporate Banking Division, Institutional Banking Division, Commercial Banking Division, Transaction Banking & Capital Market Division, Transaction Banking Department, Consumer Banking Division, Private Banking Division and Credit Card & Consumer Finance Division.

(h) Fintech and Digitalisation Promotion Committee (formerly known as: Fintech Committee)

The Fintech and Digitalisation Promotion Committee is set up to act as a functional committee under the Executive Committee with the following scope and responsibilities:

- Responsible for formulating the overall plan for the Bank's financial technology construction and digital operation development, and responsible for researching and approving strategic development plans, and optimization adjustments for financial technology innovation, data governance, intelligent operations, channel coordination and other matters;
- Responsible for the top-level design and organizational promotion of financial technology and digital transformation strategies and the construction of reusable and shared capabilities such as data middle office and business middle office; formulate the bank's financial technology working mechanism and various development measures;
- Responsible for studying and approving resource allocation policies related to financial technology construction and digital operations, and promoting agile organizational transformation;
- 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 implementation governance/ regulations;
- Responsible for implementing the data governance requirements of the head office and regulatory agencies, promoting the implementation of data strategy in CCBA, establishing a data governance system, researching data application development strategies and directions, reviewing major issues such as data governance and data security, popularizing data culture, promoting data capability building, managing CCBA data governance resources and implementation performance, and leveraging the value of data assets;
- 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 the research and application of new technologies, explore and establish a sustainable financial technology innovation model, and promote the operation of the Bank's financial technology innovation mechanism;
- Approve for new/renovated large-scale projects (i.e. total project investment exceeds HKD 10 million (inclusive))
- Responsible for determining annual strategic projects, promoting the implementation of strategic projects, coordinating and promoting the resolution of major project issues
- Guide and promote the bank's financial technology risk management, explore the establishment of a sustainable financial technology innovation model;
- 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;

2 Corporate governance (continued)

(h) Fintech and Digitalisation Promotion Committee (formerly known as:Fintech Committee) (continued)

- 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.

Membership of the Fintech and Digitalisation Promotion Committee is appointed by the Senior Management. Currently, the Committee consists of ten members with the Deputy Chief Executive overseeing Fintech / Data Governance Division as the Chairperson, Deputy Chief Executive overseeing e-Banking Division and Chief Operating Officer who is co-managing the daily operation of Fintech / Data Governance / e-Banking Division as the Vice Chairperson. Other members are Head of Fintech Division, Head of Data Management Division, Head of eBanking Division, Head of Operations Division, Head of Legal & Compliance Division, Head of Finance Division and Head of Human Resources Division while Fintech Division Representative is the secretary to the Committee.

(i) Safety Production Committee

The Safety Production Committee implements and regulates the decisions, arrangements, guidelines, policies, laws and regulations regarding work safety. The main duties and power of the Safety Production Committee are:

- Study and review production safety work plans, programs, management systems, operating procedures and major emergency plans;
- Improve and implement the safety production responsibility;
- Regularly to hearing the reports on production safety and organize and promote the implementation of production safety work;
- Resolve the major production safety issues and problems;
- Organize the joint inspections and supervise the major hidden dangers;
- Other matters that consideration for production safety;

According to the charter of the Safety Production Committee, the Chief Executive Officer shall serve as the Chairman of the Safety Production Committee, the Deputy Chief Executive that in charge of security and safety or technological security shall serve as the Vice Chairman, and the members shall be the heads of the Executive Office, Finance Division, Human Resources Division, Risk Management Division, Legal and Compliance Division, Consumer Banking Division, Credit Card & Consumer Finance Division, Digital Banking Division, Operations Division, Data Management Division and Fintech Division.

(j) Accountability Committee

The Accountability Committee is a functional committee under the Executive Committee. It is responsible for coordinating and reviewing matters related to accountability within the delegated management authority of the Bank. In addition, Accountability Working Group is established under the Accountability Committee. The major responsibilities of the Accountability Committee include:

- Reviewing and implementing the Bank's regulations, policies, and plans related to accountability;
- Receiving reports on the implementation of the Bank's accountability system submitted by the Accountability Working Group;
- Receiving reports on the accountability pursuits in response to cases with the risk level of serious or very serious submitted by the Accountability Working Group;
- Reviewing and determining the accountability attribution and the accountability pursuits for cases with material risks, significant operational losses and non-compliance issues;
- Reviewing the accountability attribution and the accountability pursuits for cases involving division head level, and reporting to the Executive Committee or seeking Executive Committee's final approval as required;
- Reviewing on appeals and complaints within its authority;
- Handling other matters that require review and decision-making by the Accountability Committee.

2 Corporate governance (continued)

(j) Accountability Committee (continued)

The Accountability Committee is chaired by the Deputy Chief Executive in charge of the Legal and Compliance Division. The permanent members include the Head of Risk Management Division, the Head of Legal and Compliance Division, the Head of Human Resources Division, and the Head of Finance Division. The temporary members include Division Heads responsible for investigating and verifying relevant violations, Division Heads assisting in due diligence investigations, and the head of Audit Division.

(k) Corporate Banking Committee

Corporate Banking Committee is a functional committee under the Executive Committee of the Board of Directors and is responsible for the overall coordination of the Bank's corporate business strategy. The resolutions of the Corporate Banking Committee act as guidance on the operation and management of the Bank's corporate business sector. The main functions of the Corporate Banking Committee are as follows:

- Handling and facilitating strategic requirements and decisions of the Head Office and the Management, and delivering the Head office's strategy in the Bank's corporate business sector;
- Formulating corporate business development strategy;
- Formulating the master plan, annual plan, reward and punishment programs in the Bank's corporate business sector;
- Contributing to important matters such as resource allocation, revenue distribution and team building in the Bank's corporate business sector;
- Studying comprehensive regulations and promoting product innovation as well as system construction in the Bank's corporate business sector;
- Reviewing integrated marketing proposals and promoting collaboration among different sectors in the Bank;
- Tracking and analyzing the key performance indicators in the Bank's corporate business sector;
- Reviewing other corporate business-related issues.

Corporate Banking Committee is chaired by Deputy Chief Executive overseeing Corporate Banking. Members include Head of Corporate Banking I Division, Deputy Head of Corporate Banking I Division, Head of Corporate Banking II Division, Head of Institutional Banking Division, Head of Transaction Banking & Capital Market Division, Head of Transaction Banking, Head of Treasury and Head of Commercial Banking.

(l) Retail Banking Committee

The Retail Banking Committee is a functional committee established under the Executive Committee of the Board of Directors. Its core mandate is to coordinate and oversee the Bank's retail business line, including integrated planning, implementation supervision, and risk monitoring. The Committee also serves for coordinating critical cross-departmental initiatives within the retail sector and across business units, and reviewing major operational matters within its authority. Key responsibilities include:

- Overseeing the implementation of strategic directives from the Head Office and senior management regarding retail business development, ensuring effective execution of decisions made by the CCB Personal Finance Management Committee and Board Executive Committee;
- Formulating and monitoring annual operational plans with defined key performance indicators for the personal business line;
- Establishing cross-departmental performance evaluation metrics and designing competitive sales incentive schemes to enhance sales force effectiveness;
- Driving key customer segment expansion strategies and accelerating priority initiatives including cross-border finance, scenario-based finance, and digital transformation;
- Optimizing resource allocation across retail business units through integrated planning;
- Developing risk control frameworks in response to major market shifts and regulatory changes, while overseeing rectification of issues identified through audits and compliance reviews;
- Promoting employee conduct standards and fostering a compliance-oriented organizational culture;
- Addressing other strategic matters within the Committee's governance authority.

2 Corporate governance (continued)

(l) Retail Banking Committee (continued)

The Retail Banking Committee is chaired by the Deputy Chief Executive who leads the retail business sector, with the Executive Vice Chairman role assumed by the Chief Retail Banking Officer. Member departments comprise the Consumer Banking Division, Private Banking Division, Credit Card & Consumer Finance Division, Commercial Banking Division, and Digital Banking Division. Daily operations are managed by the "Retail Banking Committee Office".

(m) 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, reputation risk and climate risk. Two working committees namely Special Assets Management Committee and Product Risk Committee are established under the Risk Management Committee.. The major responsibilities of the Risk Management Committee include:

- Ensuring a comprehensive and integrated management approach is adopted within the Bank with respect to the definition, identification and management of major risks;
- Ensuring 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);
- Ensuring the risk management framework is properly implemented and maintained and is adequate for the scale and complexity of the Bank's business operation;
- Approving or reviewing 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;
- Approving or reviewing various risk limits, parameters and thresholds, as well as risk assessment tools to ensure pertinent risks are addressed/mitigated;
- Approving the Terms of Reference for the working committees under the RMC, namely Special Assets Management Committee and Product Risk Committee;
- Acting as a central forum to review, discuss and resolve matters across different risk areas;
- Approving or reviewing major risk assessment/monitoring reports from respective risk areas and committees of the Bank;
- Ensuring 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;
- Approving credit programs with legal and compliance considerations;
- Overseeing overall asset quality of the Bank through exceptional reporting and trend analysis as deemed appropriate by the Credit Committee;
- Approving or reviewing 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;
- Reviewing and recommending the Recovery Plan Policy and Resolution Planning – Core Information Collection Policy to the Executive Committee of the Board of Directors for review / approval.
- Acknowledge the operational risk management (ORM) key matters including ORM tools and reports as well as the Annual Business Continuity Report;
- Reviewing the risk positions and trends of the Bank, etc.;
- Reviewing material issues relating to impairment allowances as reported by the Special Asset Management Committee;
- Facilitating the regular reporting of respective risk areas to the Risk Committee and/or the Executive Committee.
- Review and endorse the new product approval policies & procedures, and material matters on risk issue relating to new product as reported by the PRC; and
- Act as a reporting line for the Bank to oversee and manage the technology risk of the Bank within the Technology Risk Management Framework.

2 Corporate governance (continued)

(m) 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, Head of Credit Management Department, Deputy Head of Risk Management Division and Head of Market Risk.

(n) 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:

- Ensuring that the Bank's credit risk profile is in line with the risk appetite and strategies set undeer the dirction of the Risk Management Committee, the Executive Committee, the Risk Committee as well as CCB (the Bank's Credit Advisor);
- Approving or reviewing 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;
- Approving or reviewing various credit related risk limits, parameters and thresholds, as well as credit programs, products, risk assessment tools to ensure pertinent risks are addressed/mitigated;
- Reviewing or approving authorizations related to credit approval authorities;
- Reviewing and approving credit actions or applications within its delegated credit approval authority;
- Reviewing the mapping of internal credit ratings;
- Reviewing the result of portfolio reports;
- Approving loan assets classification related matter;
- Overseeing overall credit quality of the Bank; and
- Facilitating reporting to the management.

The Credit Committee is chaired by the Deputy Chief Executive overseeing Credit Approval or the Chief Risk Officer or Head of Credit Division or Deputy Head of Credit Division, and members include the Head of Risk Management Division, Head of Credit Division, Chief Approver, Deputy Head of Credit Division, Deputy Head of Risk Management Division, Senior Approver of Credit Division and designated individual credit approver(s).

2 Corporate governance (continued)

(o) Internal Control, Compliance and Operations Committee

The Internal Control, Compliance and Operations Committee ("ICCOC") is a functional committee under the Executive Committee ("EC") and the Risk Committee ("RC") to assist both the EC and the RC to identify, assess, oversee and monitor the Bank's internal control function, operation risk and compliance matters, to regulate the business operation management mechanism and to improve the operation quality, adequacy and efficiency. This committee is charged with the responsibilities for:

- Providing advice and proposal to the Management regarding major compliance and internal control issues;
- Identifying, analysing and evaluating the Bank's overall compliance risks or significant internal control defects, such as emergencies, significant cases and internal control weaknesses, so as to monitor the implementation of respective remedial action, enhancement and control over 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 Anti-Money Laundering and Counter-Financing of Terrorism Compliance Committee ("AMLCC") and Investment & Insurance Working Unit ("I&I" Unit");
- Approving items submitted from AMLCC or I&I Unit. Formulating and approving 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;
- Formulating, announcing and reviewing delegation of operational authorities to staff of different levels so as to ensure responsible staff shall discharge daily duties and responsibilities in a legitimate and adequately controlled manner. Delegation of authorities shall be approved by the Board of Directors and / or the functional committee;
- 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, process 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 in the Bank's name and solely for its own operations purpose, and the mechanism on approving and managing customers transaction limits in all electronic channels;
- Facilitating regular reporting of important matters monitored and discussed to the RC;
- Overseeing and managing operational risk and business continuity related matters of the Bank;
- Overseeing related party transactions ("RPT") management of the Bank with CCB, guiding the Bank to establish and continuously enhance the mechanism for management of RPT;
- Reviewing and approving the Policy of RPT Management, and other key matters in relation to RPT.

According to the terms of reference of the ICCOC, 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 Digital Banking Division, Head of Data Management Division, and Head of Corporate Administration Department.

3 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 and Internal Control, Compliance and Operations Committee are the executive bodies 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 Management under 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.