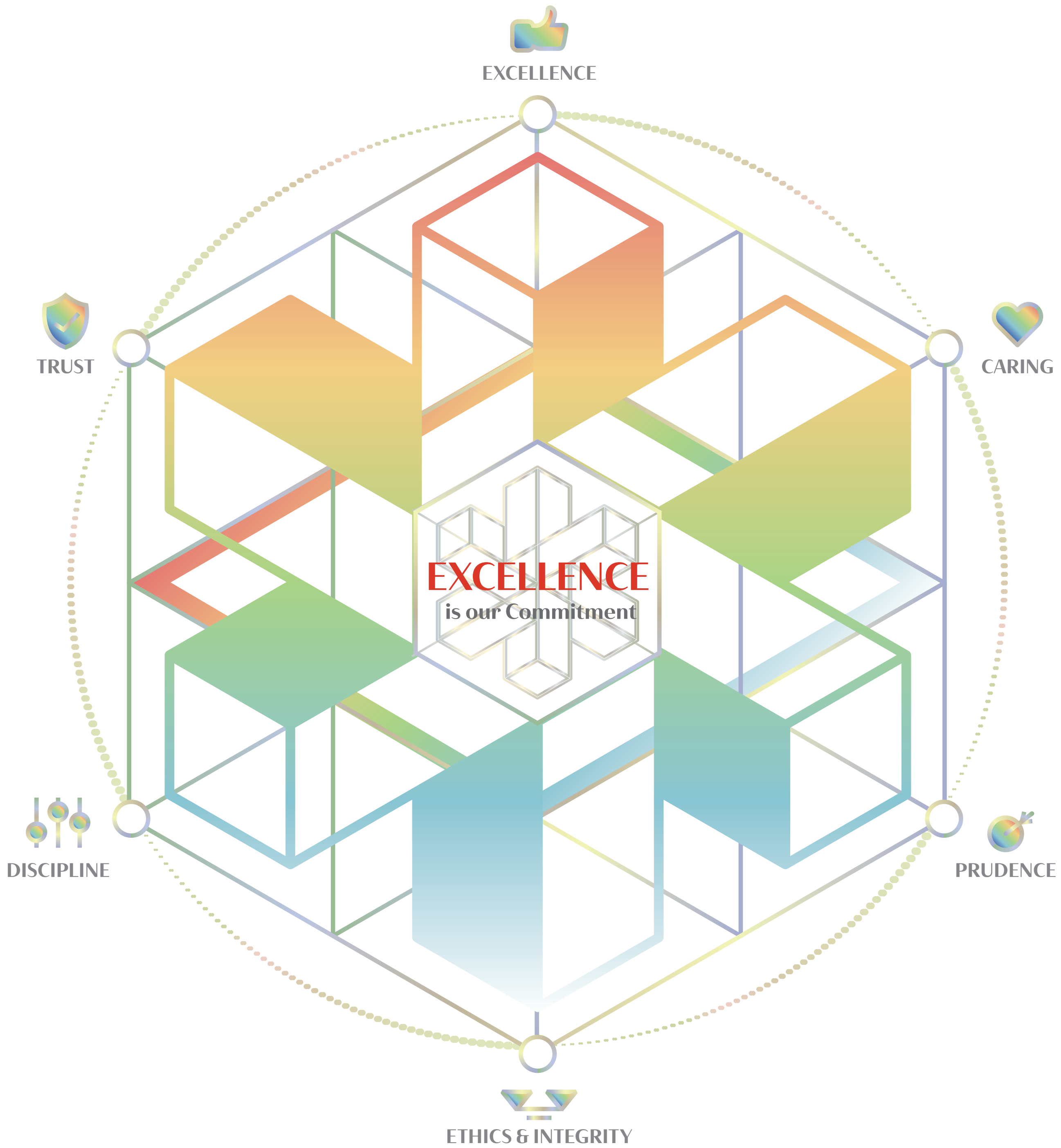
PUBLIC BANK (HONG KONG) LIMITED
大 眾 銀 行（香 港）有 限 公 司



Annual Report 2021

Corporate Information

Board of Directors

Non-Executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman),
also Founder, Chairman Emeritus, Director
and Adviser of Public Bank Berhad

Executive Director

Tan Yoke Kong

Non-Executive Directors

Lai Wan (Co-Chairman)
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-Executive Directors

Lee Chin Guan
Tang Wing Chew
Lim Chao Li

Company Secretary

Chan Sau Kuen

Registered Office and Head Office

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2541 0009
Website : www.publicbank.com.hk

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

Charles Yeung Clement Lam Liu & Yip
Deacons
Siao, Wen and Leung

Principal Bankers

CIMB Bank Berhad
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

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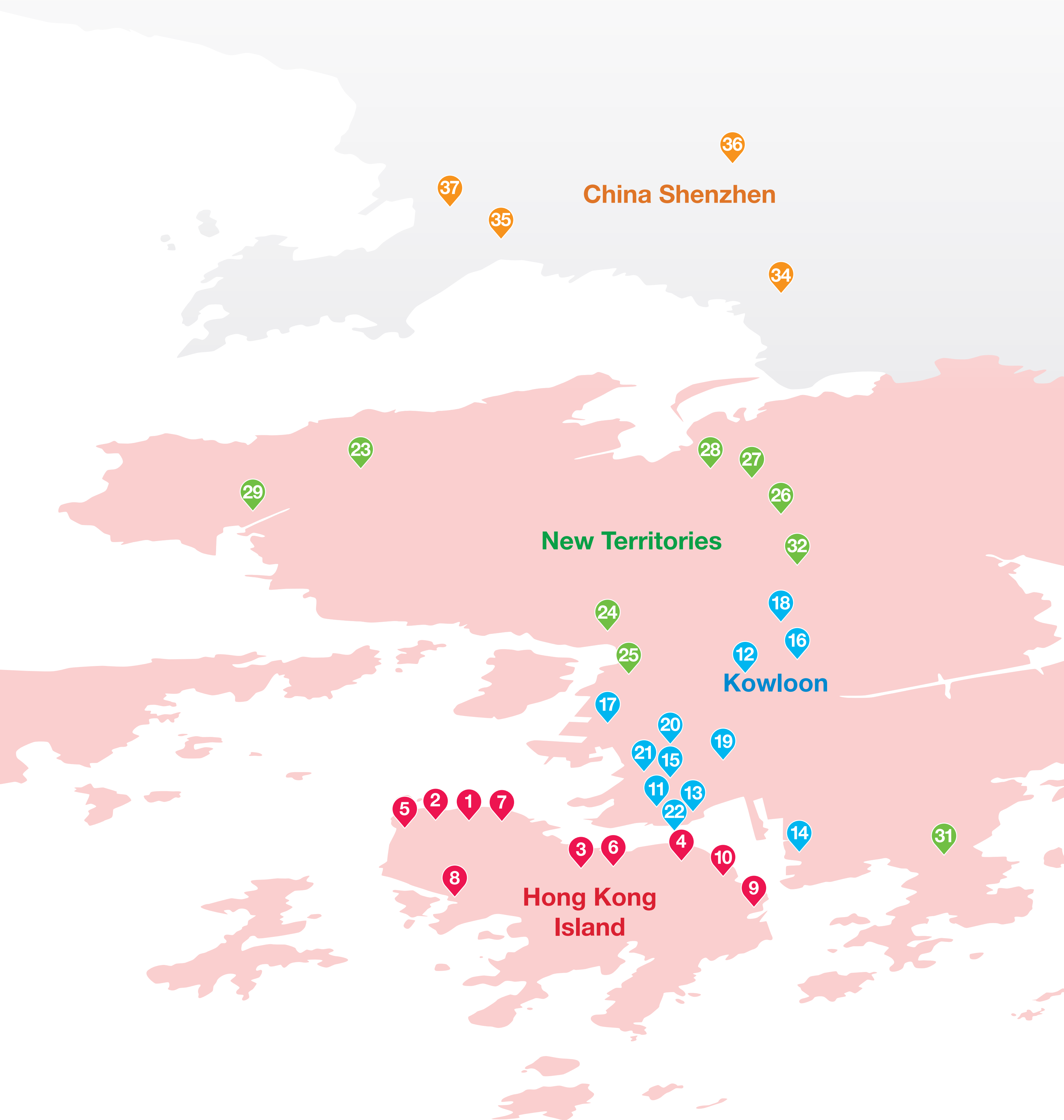
Public Bank (Hong Kong) Limited Branch Network



HEAD OFFICE AND BRANCHES

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central
Tel : 2541 9222 Telex : 73085 CBHK HKHH
P.O. Box : G.P.O. Box 824 Fax : 2541 0009
Website : www.publicbank.com.hk

HONG KONG ISLAND

1 **Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: Yam Oi Yin, Pauline

2 **Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Chau Cheung Kwong, Billy

3 **Wanchai Commercial Centre**
9/F, Tower 188,
Nos. 188-190 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012
Manager: Lee Wai Kwan, Luceta

4 **North Point Branch**
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road
Tel: 2568 5141 Fax: 2567 0655
Manager: Chow Yuet Kei, Mary

5 **Shek Tong Tsui Branch**
Shop B1, G/F, Hong Kong Plaza
188 Connaught Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Lau Wai Mei, Susanna

6 **Causeway Bay Branch**
G/F and M/F
447 Hennessy Road
Tel: 2572 2363 Fax: 2572 3033
Manager: Chong Mei Kuen, Joe

7 **Central Branch**
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 2147 2140 Fax: 2147 2244
Manager: Fong Fung Mei, Marisa

8 **Aberdeen Branch**
Shop B, G/F, Kong Kai Building
184 Aberdeen Main Road
Tel: 2871 0928 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson

9 **Shau Kei Wan Branch**
Shop C, G/F, Island Walk
163 Shau Kei Wan Road
Tel: 2884 3993 Fax: 2885 9283
Manager: Chan Chi Ho, Eric

10 **Quarry Bay Branch**
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road
Tel: 2856 3880 Fax: 2856 0833
Manager: Wong Kei Man, Allison

KOWLOON

11 **Yaumatei Branch**
G/F, Ek Nam Building
486 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Kwong Hon Wun, Peter

12 **Kowloon City Branch**
G/F, 15 Nga Tsin Wai Road
Tel: 2382 0147 Fax: 2718 4281
Manager: Chan Chi Man, Mandy

13 **Hung Hom Branch**
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road
Tel: 2363 9213 Fax: 2363 3195
Manager: Choi Kam Yee, Catalina

14 **Kwun Tong Branch**
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Fax: 2389 9969
Manager: Chow Yiu Hung, Howard

15 **Mongkok Branch**
G/F, JCG Building
16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Shiu Man, Ricky

16 **San Po Kong Branch**
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street
Tel: 2326 8318 Fax: 2326 9180
Manager: Yeung Chun Ming, Simpson

17 **Cheung Sha Wan Branch**
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 9858 Fax: 2786 9506
Manager: Leung Siu Fong, Kennis

18 **Wong Tai Sin Branch**
Shop 641-642, 6/F
Tsz Wan Shan Shopping Centre
Tel: 2328 7332 Fax: 2328 7991
Manager: Wong Lik Kin, Loppy

19 **To Kwa Wan Branch**
Shop Nos. 109 & 120, G/F
Block B, I-Feng Mansions
No. 237A To Kwa Wan Road
Tel: 2362 0238 Fax: 2362 3999
Manager: Leung Ho Chuen, Noel

20 **Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Ngan Pui Shan, Sandy

21 **Tai Kok Tsui Branch**
Unit B, Shop No. 1, G/F, Tai Moon Building
Cosmopolitan Estate, Nos. 43-59 Tai Tsun Street
Tel: 2392 1538 Fax: 2392 1101
Manager: Tsu Shuk Yi, Carmen

22 **Tsim Sha Tsui Branch**
Shop 141-146, 1/F, New Mandarin Plaza
No. 14 Science Museum Road
Tel: 2721 1218 Fax: 2721 1028
Manager: Chan Wai Cheong, Daniel

NEW TERRITORIES

23 **Yuen Long Branch**
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road
Tel: 2479 4265 Fax: 2473 3934
Manager: Lam Wong Kan, Kent

24 **Tsuen Wan Branch**
G/F, Victory Court
185-187 Castle Peak Road
Tel: 2490 4191 Fax: 2490 4811
Manager: Chui Pui Ching, Anny

25 **Kwai Chung Branch**
Shop 102, 1/F, Wealthy Garden
No. 208 Hing Fong Road
Tel: 2480 0002 Fax: 2401 2367
Manager: Leung Siu Ying, Fanny

26 **Tai Po Branch**
Eastmost Shop on G/F
Nos. 37/39 Po Yick Street
Tel: 2657 2861 Fax: 2657 7389
Manager: Yan Yi Kam, Patrick

27 **Fanling Branch**
G/F, 11 Wo Lung Street
Luen Wo Market
Tel: 2669 1559 Fax: 2669 8780
Manager: Chan Sau Ping, Rebecca

28 **Sheung Shui Branch**
G/F, 137 San Shing Avenue
Tel: 2639 0307 Fax: 3124 0091
Manager: Kan Wai Man, Daniel

29 **Tuen Mun Branch**
Shop J on G/F, Mai Kei Building
Nos. 124-148 Ho Pong Street
Tel: 2440 1298 Fax: 2440 1398
Manager: Ting Lai May, May

30 **Sai Kung Branch**
G/F, 16 Yi Chun Street
Tel: 2792 8588 Fax: 2791 0077
Manager: Kee Ka Wai

31 **Tseung Kwan O Branch**
Shop 106, 1/F, Savannah Place
No. 3 Chi Shin Street
Tel: 2701 7688 Fax: 2701 7628
Manager: Lam Kwok Sing, Nelson

32 **Shatin Branch**
Shop 4-6B,
Lucky Plaza Commercial Centre
Tel: 2601 6308 Fax: 2601 3686
Manager: Chow Wing Hung, Desmond

MAINLAND CHINA

33 **Shenzhen Branch**
No. 3060 Chunfeng Road, Nanhu Street,
Luohu District, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327

34 **Futian Sub-branch**
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Huang Xue Feng, Bronze

35 **Shekou Sub-branch**
Shop No. 155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Qi Han Qiao, Ken

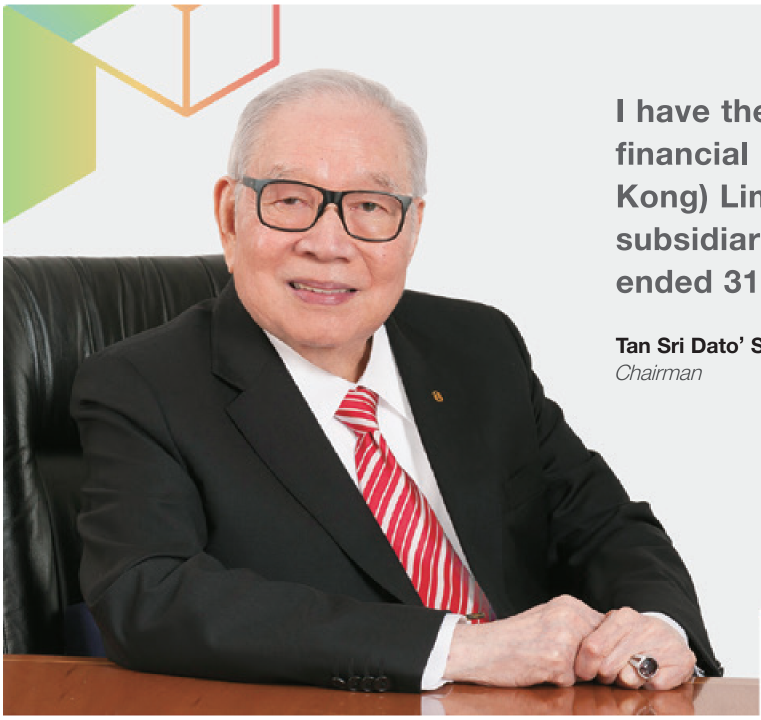
36 **Longhua Sub-branch**
No. 110, Block 1, Laimeng Spring Garden
(Land No.: A818-0449), Minzhi Office, Longhua
New District, Shenzhen, People's Republic of China
Tel : (86-755) 2377 7601
Fax : (86-755) 2377 6919
Manager : Xiao Shi Yong, Ken

37 **Qianhai Sub-branch**
Shop No. 0933, Block 9 &12, Phase 2
Zhongzhou Huafu, Xinan Street, Baoan District
Shenzhen, People's Republic of China
Tel : (86-755) 2557 8838
Fax : (86-755) 8228 3559
Manager : Chen Hai Zhou, Joe

Shenyang Representative Office
Unit 2907B, No. 262 Shifu Road, Shenhe District
Shenyang, Liaoning Province
People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie

Shanghai Representative Office
Room I J, 24/F, Jin Sui Mansion
No. 379 South Pu Dong Road, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Yang Min

Chairman's Statement



I have the pleasure to report the financial results of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2021.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

FINANCIAL HIGHLIGHTS

The Group recorded a profit after tax of HK$476.1 million for the year ended 31 December 2021, representing a growth of HK$56.2 million or 13.4% when compared to the previous year.

For the year under review, the Group's interest income decreased by HK$206.0 million or 12.7% to HK$1.42 billion mainly due to lower interest yield on loan portfolio and other interest-bearing assets, whilst interest expense decreased by HK$237.8 million or 61.9% to HK$146.5 million mainly due to lower cost of funding and decrease in average balance of fixed deposits. Consequently, the Group's net interest income increased by HK$31.8 million or 2.6% to HK$1.27 billion from HK$1.24 billion in the previous year. Other operating income of the Group decreased by HK$90.6 million or 28.7% to HK$225.6 million mainly due to the lower government subsidies received of HK$1.0 million against HK$67.2 million received in the previous year. Total operating expenses (before changes in fair value of investment properties) of the Group decreased by HK$27.8 million or 3.2% to HK$835.8 million, mainly due to decreases in staff-related costs and marketing expenses.

Fair value of investment properties increased by HK$2.4 million during the year under review as compared to a revaluation loss of HK$10.2 million in the previous year. Credit loss expenses decreased by HK$95.4 million or 51.2% to HK$91.0 million, mainly due to decrease in credit charge for unsecured consumer financing loans driven by the reduced loan delinquencies and bankruptcy cases for the segment during the year.

The Board of Directors (the "Board") had declared an interim dividend of HK$6.768 (2020: HK$4.453) per share in July 2021. The Board recommended the payment of a final dividend of HK$9.298 (2020: HK$7.453) per share, making a total dividend of HK$16.066 (2020: HK$11.906) per share for year 2021. The total dividend declared and recommended for the year 2021 amounted to HK$238.0 million (2020: HK$176.4 million).

Chairman's Statement

LOANS AND CUSTOMER DEPOSITS

Total loans and advances (including trade bills) of the Group decreased marginally by HK$0.07 billion or 0.3% to HK$25.77 billion as at 31 December 2021 from HK$25.84 billion as at 31 December 2020. The decline in loans and advances was mainly due to the subdued loan demand under pandemic situation and the prudential credit risk management in credit approval for new loans and advances. Customer deposits of the Group decreased by HK$2.03 billion or 5.9% to HK$32.18 billion as at 31 December 2021 from HK$34.21 billion as at 31 December 2020. The decline in customer deposits was due to the Group's funding cost management measures on fixed deposits to minimise the adverse impact on its net interest margin amidst the low interest rate environment, whilst the Group's demand and savings deposits recorded a growth of HK$0.64 billion or 5.3% in 2021.

The Bank recorded a growth in total loans and advances (including trade bills) of HK$0.16 billion or 0.8% to HK$20.54 billion as at 31 December 2021 and a decrease in customer deposits (excluding deposits from a subsidiary) of HK$1.53 billion or 5.2% to HK$27.74 billion as at 31 December 2021.

Public Finance Limited ("Public Finance"), a wholly-owned subsidiary of the Bank, recorded a decrease in total loans and advances of HK$233.2 million or 4.3% to HK$5.22 billion as at 31 December 2021 and a decrease in customer deposits of HK$473.1 million or 9.2% to HK$4.69 billion as at 31 December 2021.

The Group will continue to expand its retail and commercial banking and consumer financing businesses and stockbroking services through the extensive branch network of the Group, offering competitive products whilst providing premium customer service. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its banking services and business growth from electronic channels. The Group will continue to adopt prudent and flexible business strategies and adjust to market and environmental changes accordingly in the expansion of its customer base and business.

The Group will also continue to further improve its operating cost efficiency and effectiveness by optimisation of system and staff resources, streamlining the support services and making use of synergies from the combined branch network of the Group.

BRANCH NETWORK

As at 31 December 2021, the Bank had a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China ("PRC"), and it continued to focus on providing a broad range of commercial and retail banking services to its targeted market segments. Public Finance had a branch network of 43 branches in Hong Kong, and it continued to focus on its core business in personal lendings in 2021. The Group had a combined network of 80 branches as at the end of 2021. The Group also undertakes securities trading business through two stockbroking subsidiaries.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission ("SFC") and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

Our Corporate Family
Corporate Events & Recreational Activities

1. Senior Management as presenters of Vaccination Promotion Campaign.
2. Winners of grand prizes in Vaccination Promotion Campaign taking a photo with Mr. Tan Yoke Kong, Executive Director and Chief Executive of the Bank (1st from right).
3. Mr. Chong Yam Kiang, Executive Director and Chief Executive of Public Finance (2nd from left), and other Senior Management presenting the Travel Gift Vouchers to the winners in Vaccination Promotion Campaign.
4. The Bank's Commercial Banking Department staff participating in The Community Chest "Dress Causal Day 2021" with a worthy cause.
5. Public Finance's Branch staff sharing team spirit and happiness in Dress Casual Day.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6. Mr. Ng Chee Khuen, General Manager and Alternative Chief Executive of the Bank, appreciating the staff's generosity for donating food items to help the needy in Hong Kong.
7. Public Securities Limited's staff sharing love with the less fortunate groups by food donation campaign in Chinese New Year.
8. Staff delivering the food items to Food Grace for redistribution to the underprivileged.
9. Staff spending a great day walking along the Hong Kong Trail in support of Green Power Hike Bank Cup (virtual walk) event.
10. Staff delightfully demonstrating their own designed Decoupage bags to be delivered to the elderly.

Our Corporate Family
Marketing & Promotions

大眾財務 大眾首選
「0」息 就係最好消息
「0」息 私人貸款
只需付行政費每年HK$500*
以HK$10,000貸款，分12個月供款，每月只需供款HK$834
私人貸款 業主貸款 公務員貸款
樓宇按揭 分期/租賃 高息定期 的士融資
網上申請：
www.publicfinance.com.hk
貸款熱線：2848 1888
大眾財務有限公司
PUBLIC FINANCE LIMITED

大眾財務 大眾首選
清走卡數 智好時機
每月平息低至 0.18%*
每HK$10,000貸款 日息低至 HK$0.6*
節省利息高達 95%
個人化息率智慳錢私人貸款
私人貸款 業主貸款 公務員貸款
樓宇按揭 分期/租賃 高息定期 的士融資
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大眾財務有限公司
PUBLIC FINANCE LIMITED

大眾財務 大眾首選
輕鬆清稅 盡享更多優惠
成功申請 送 高達HK$10,000 超市禮券*
還款期長達48個月
貸款額高達月薪15倍*
每月平息低至0.16%*
手續費豁免
個人化低息稅月私人貸款
私人貸款 業主貸款 公務員貸款
樓宇按揭 分期/租賃 高息定期 的士融資
網上申請：
www.publicfinance.com.hk
貸款熱線：2848 1888
大眾財務有限公司
PUBLIC FINANCE LIMITED

大眾財務 大眾首選
貸款額高達 HK$80萬*
現金獎賞高達 HK$6,000*
新年大利是高達 HK$1,000*
每月平息低至 0.16%*
送您金牛大利是
私人貸款 業主貸款 公務員貸款
樓宇按揭 分期/租賃 高息定期 的士融資
網上申請：
www.publicfinance.com.hk
貸款熱線：2848 1888
大眾財務有限公司
PUBLIC FINANCE LIMITED

Report of the Directors

The Directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activities of the Group consisted of the provision of a comprehensive range of banking and financial services.

Details of the principal activities of the Bank's subsidiaries are set out in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2021 and the Group's financial position as at that date are set out in the financial statements on pages 16 to 121.

Interim dividend of HK$6.768 (2020: HK$4.453) per ordinary share was declared and paid during the year. The Directors recommend the payment of a final dividend of HK$9.298 (2020: HK$7.453) per ordinary share for the year.

BUSINESS REVIEW

No business review is prepared as the Bank is exempted under Section 388(3)(b) of the Hong Kong Companies Ordinance for being a wholly owned subsidiary of Public Financial Holdings Limited ("PFHL") for the year ended 31 December 2021.

PROPERTY AND EQUIPMENT, LAND HELD UNDER FINANCE LEASES AND INVESTMENT PROPERTIES

Details of movements in the property and equipment, land held under finance leases and investment properties of the Group during the year are set out in notes 23, 24 and 25 to the financial statements, respectively.

SHARE CAPITAL

There was no movement in the Bank's issued share capital during the year.

RESERVES

Details of movements in the reserves of the Group and of the Bank during the year are set out in notes 30 and 37(c) to the financial statements, respectively, and the consolidated statement of changes in equity.

DIRECTORS

The Directors of the Bank during the year and up to the date of this report were as follows:

Non-Executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman
Lai Wan, Co-Chairman (Re-designated from Independent Non-Executive Director
to Non-Executive Director on 8 June 2021)
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Chong Yam Kiang
Quah Poh Keat (Resigned on 1 November 2021)

Independent Non-Executive Directors:
Lee Chin Guan
Tang Wing Chew
Lim Chao Li (Appointed on 1 November 2021)

Executive Director:
Tan Yoke Kong

DIRECTORS (Continued)

In accordance with Articles 109, 110 and 115 of the Articles of Association of the Bank, Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam and Mr. Lim Chao Li shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

The Directors of the subsidiaries of the Bank during the year and up to the date of this report were as follows:

Tan Yoke Kong
Chong Yam Kiang
Chiu Chik Shang
Chan Sau Kuen
Chau Man Ching, Gladys

MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts relating to the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisted during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year or at the end of the year has been/was the Bank or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Bank's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement that will or may result in the Bank issuing shares or that requires the Bank to enter into any agreements that will or may result in the Bank issuing shares was entered into by the Bank during the year or subsisted at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as detailed in note 33 to the financial statements, there has been no transaction, arrangement or contract of significance in relation to the Bank's business to which the Bank or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisting during or at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 156 of the Bank's Articles of Association and subject to the provisions of the statutes, every Director, secretary or officer of the Bank shall be indemnified out of the funds of the Bank against all liability incurred by him as such Directors, secretary or officer of the Bank in or about the execution or holding of his office or otherwise in relation thereto. The Directors and officers liability insurance for the Bank was/is in force during the year and as at the date on which this Report of the Directors is approved in accordance with section 391 of the Hong Kong Companies Ordinance.

COMPLIANCE WITH SUPERVISORY POLICY MANUAL

The Bank has complied with the Supervisory Policy Manual ("SPM") Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA, except for the non-compliance with the relevant provisions relating to the composition of the Board and Board Committees of the SPM CG-1 during the period from 8 June 2021 to 31 October 2021 when Mr. Lai Wan was re-designated from Independent Non-Executive Co-Chairman to Non-Executive Co-Chairman on 8 June 2021. Following the (i) resignation of Mr. Quah Poh Keat as Non-Executive Director and (ii) appointment of Mr. Lim Chao Li as Independent Non-Executive Director of the Bank on 1 November 2021, the aforesaid non-compliances were rectified.

The Bank has also complied with the Banking (Disclosure) Rules issued by the HKMA, and the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Report of the Directors

DONATIONS

During the year, the Group made charitable donations totaling HK$109,000 (2020: HK$17,000).

AUDITORS

Messrs. Ernst & Young retire and a resolution for their re-appointment as auditors of the Bank will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Lai Wan
Director

Tan Yoke Kong
Director

19 January 2022

Independent Auditor's Report

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the members of Public Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 16 to 121, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

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.

Independent Auditor's Report

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.

- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
19 January 2022

Consolidated Income Statement

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Interest income	8	**1,420,674**	1,626,677
Interest expense	8	**(146,459)**	(384,293)
NET INTEREST INCOME		**1,274,215**	1,242,384
Other operating income	9	**225,632**	316,150
OPERATING INCOME		**1,499,847**	1,558,534
Operating expenses	10	**(835,811)**	(863,621)
Changes in fair value of investment properties		**2,447**	(10,160)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**666,483**	684,753
Credit loss expenses	11	**(90,951)**	(186,367)
PROFIT BEFORE TAX		**575,532**	498,386
Tax	13	**(99,449)**	(78,517)
PROFIT FOR THE YEAR		**476,083**	419,869
ATTRIBUTABLE TO:			
Owners of the Bank		**476,083**	419,869

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
PROFIT FOR THE YEAR	**476,083**	419,869
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**27,289**	55,446
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**503,372**	475,315
ATTRIBUTABLE TO:		
Owners of the Bank	**503,372**	475,315

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
ASSETS			
Cash and short term placements	15	**4,320,114**	6,224,033
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	**2,290,111**	1,771,166
Derivative financial instruments		**1,551**	25,751
Loans and advances and receivables	17	**25,657,654**	25,727,368
Equity investments at fair value through other comprehensive income	18	**6,804**	6,804
Held-to-collect debt securities at amortised cost	19	**6,479,066**	6,735,263
Deferred tax assets	28	**38,669**	34,414
Tax recoverable		**1,897**	1,713
Intangible assets	22	**718**	718
Property and equipment	23	**145,689**	148,729
Land held under finance leases	24	**167,349**	171,083
Right-of-use assets	20	**174,950**	120,627
Investment properties	25	**99,762**	97,315
Goodwill	26	**242,342**	242,342
Other assets	21	**238,079**	491,465
TOTAL ASSETS		**39,864,755**	41,798,791

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**465,638**	421,138
Derivative financial instruments		**6,748**	2,682
Customer deposits at amortised cost	27	**32,181,510**	34,205,129
Lease liabilities	20	**178,861**	125,985
Current tax payable		**72,250**	41,904
Deferred tax liabilities	28	**22,367**	21,395
Other liabilities	21	**300,874**	636,724
TOTAL LIABILITIES		**33,228,248**	35,454,957
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	29	**2,854,045**	2,854,045
Reserves	30	**3,782,462**	3,489,789
TOTAL EQUITY		**6,636,507**	6,343,834
TOTAL EQUITY AND LIABILITIES		**39,864,755**	41,798,791

Lai Wan
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Note	**2021 HK$'000**	2020 HK$'000
TOTAL EQUITY			
Balance at the beginning of the year		**6,343,834**	6,025,213
Profit for the year		**476,083**	419,869
Other comprehensive income in translation reserve		**27,289**	55,446
Total comprehensive income for the year		**503,372**	475,315
Dividends paid in respect of previous year	14	**(110,424)**	(90,718)
Dividends paid in respect of current year	14	**(100,275)**	(65,976)
Balance at the end of the year		**6,636,507**	6,343,834

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**575,532**	498,386
Adjustments for:			
Dividend income from listed investments	9	**(202)**	(156)
Dividend income from unlisted investments	9	**(35)**	(35)
Depreciation of property and equipment and land held under finance leases	10	**35,478**	35,154
(Increase)/decrease in fair value of investment properties	25	**(2,447)**	10,160
Increase/(decrease) in credit loss expenses for loans and advances and receivables		**3,757**	(36,948)
Net losses on disposal of property and equipment		**7**	18
(Decrease)/increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**(166)**	274
Depreciation of right-of-use assets	20	**93,630**	96,885
Other interest expenses	8	**3,052**	3,538
Gain on termination of leases		**(1,524)**	(1,309)
Payment of dismantling costs		**(141)**	(280)
Exchange differences		**27,128**	53,729
Profits tax paid		**(72,394)**	(96,423)
Operating profit before changes in operating assets and liabilities		**661,675**	562,993
Decrease in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		**507,000**	(770,124)
Decrease/(increase) in derivative financial instruments		**24,200**	(10,306)
Decrease in loans and advances and receivables		**65,957**	2,597,860
Decrease/(increase) in held-to-collect debt securities at amortised cost		**126,242**	(759,649)
Decrease/(increase) in other assets		**253,386**	(115,665)
		976,785	942,116
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**44,500**	(366,097)
(Decrease)/increase in customer deposits at amortised cost		**(2,023,619)**	263,697
Increase/(decrease) in derivative financial instruments		**4,066**	(1,969)
(Decrease)/increase in other liabilities		**(337,382)**	55,727
		(2,312,435)	(48,642)
Net cash (outflow)/inflow from operating activities		**(673,975)**	1,456,467

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	23	**(28,716)**	(55,936)
Sales proceeds from disposal of property and equipment		**5**	118
Dividends received from listed investments		**202**	156
Dividends received from unlisted investments		**35**	35
Net cash outflow from investing activities		**(28,474)**	(55,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(210,699)**	(156,694)
Repayment of lease liabilities	20	**(94,947)**	(98,029)
Net cash outflow from financing activities		**(305,646)**	(254,723)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,008,095)**	1,146,117
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**6,173,647**	5,027,530
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,165,552**	6,173,647
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	35	**1,041,688**	1,218,482
Money at call and short notice with an original maturity within three months		**2,898,597**	4,360,617
Placements with banks and financial institutions with an original maturity within three months		**1,225,267**	464,568
Held-to-collect debt securities at amortised cost with an original maturity within three months		**–**	129,980
		5,165,552	6,173,647
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(170,741)**	(497,363)
Interest received		**1,417,297**	1,656,397

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividends payable HK$'000	Lease liabilities HK$'000	Total liabilities from financing activities HK$'000
As at 1 January 2021	–	125,985	125,985
Changes from financing cash flows:			
Dividends paid on ordinary shares	(210,699)	–	(210,699)
Repayment of lease liabilities	–	(94,947)	(94,947)
Total changes from financing cash flows	(210,699)	(94,947)	(305,646)
Other changes:			
Dividends declared on ordinary shares	210,699	–	210,699
Additions to lease liabilities	–	143,833	143,833
Interest expense on lease liabilities	–	2,937	2,937
Reassessment on lease liabilities	–	831	831
Exchange difference on lease liabilities	–	222	222
Total other changes	210,699	147,823	358,522
As at 31 December 2021	–	178,861	178,861

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Dividends payable HK$'000	Lease liabilities HK$'000	Total liabilities from financing activities HK$'000
As at 1 January 2020	–	173,993	173,993
Changes from financing cash flows:			
Dividends paid on ordinary shares	(156,694)	–	(156,694)
Repayment of lease liabilities	–	(98,029)	(98,029)
Total changes from financing cash flows	(156,694)	(98,029)	(254,723)
Other changes:			
Dividends declared on ordinary shares	156,694	–	156,694
Additions to lease liabilities	–	49,425	49,425
Interest expense on lease liabilities	–	3,417	3,417
Reassessment on lease liabilities	–	(3,391)	(3,391)
Exchange difference on lease liabilities	–	570	570
Total other changes	156,694	50,021	206,715
As at 31 December 2020	–	125,985	125,985

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the year, the Group's principal activities were the provision of a comprehensive range of banking and financial services.

The Bank is a wholly owned subsidiary of PFHL. In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad, which is incorporated in Malaysia.

Particulars of the Bank's subsidiaries, which are incorporated and operate in Hong Kong, are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Bank Direct %	Percentage of equity attributable to the Bank Indirect %	Principal activities
Public Financial Securities Limited	48,000,000	100	–	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	–	Provision of nominee services
Public Futures Limited	2	100	–	Dormant
Public Finance Limited	671,038,000	100	–	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the provisions of the Hong Kong Companies Ordinance. They have also complied with the Banking (Disclosure) Rules issued by the HKMA.

Notes to Financial Statements

2. BASIS OF PREPARATION (Continued)

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVPL") and equity investments at fair value through other comprehensive income ("FVOCI").

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2021.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Bank has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. BASIS OF CONSOLIDATION (Continued)

The subsidiaries consolidated for accounting purpose are as follows:

Name	31 December 2021 Total assets HK$	31 December 2021 Total equity HK$	31 December 2020 Total assets HK$	31 December 2020 Total equity HK$	Principal activities
Public Financial Securities Limited	**52,279,251**	**48,474,348**	53,100,910	48,442,853	Securities brokerage
Public Bank (Nominees) Limited	**100,000**	**100,000**	100,000	100,000	Provision of nominee services
Public Futures Limited	**1**	**1**	1	1	Dormant
Public Finance Limited*	**6,274,791,153**	**1,424,967,037**	6,667,330,189	1,380,562,533	Deposit-taking and financing
Public Financial Limited	**10,101,371**	**10,101,371**	10,101,371	10,101,371	Investment holding
Public Securities Limited	**320,784,240**	**235,921,857**	341,004,962	217,089,704	Securities brokerage
Public Securities (Nominees) Limited	**1,113,425**	**1,110,425**	1,122,001	1,119,001	Provision of nominee services

* *The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio, leverage ratio, liquidity maintenance ratio and core funding ratio.*

4. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the reporting period related to capital base and the capital adequacy ratios as stipulated by the HKMA, and has also complied with the Banking (Disclosure) Rules.

Should the Group have not complied with the externally imposed capital requirements of the HKMA, capital management plans should be submitted to the HKMA for restoration of capital to the minimum required level as soon as possible.

The computation of the consolidated total capital ratio and other regulatory capital ratios of the Group is based on the consolidation of the Bank and Public Finance for regulatory reporting purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the SFC.

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of CET1 capital and is included in the capital base pursuant to the HKMA capital requirements.

Notes to Financial Statements

4. BASIS OF CAPITAL DISCLOSURES (Continued)

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required CCB ratio for 2020 and 2021 is 2.5%, whilst the required CCyB ratio for 2020 and 2021 is 1.0%.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2021. The Group has adopted the following revised standards for the first time for the current year's financial statements:

• Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
• Amendment to HKFRS 16	*COVID-19-Related Rent Concessions Beyond 30 June 2021*

The nature and impact of the amendments are described below.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 – *Interest Rate Benchmark Reform – Phase 2*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR").

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;

- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and

- Provide temporary reliefs to entities from having to meet the separately identifiable requirement when a RFR instrument is designated as a hedge of a risk component.

These amendments have no impact on the financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Amendment to HKFRS 16 – *COVID-19-Related Rent Concessions Beyond 30 June 2021*

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided that the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has assessed all COVID-19 related rent concessions given by lessors. All necessary lease modifications have been made and the Group did not apply the practical expedient provided in the amendment.

Issued but not yet effective HKFRSs

The Group has not applied the following revised HKFRSs, that are expected to be relevant to the Group and have been issued but are not yet effective, in these financial statements:

- Amendments to HKAS 1 and HKFRS Practice Statement 2 — *Disclosure of Accounting Policies*[1]
- Amendments to HKAS 8 — *Definition of Accounting Estimates*[1]

[1] *Effective for annual periods beginning on or after 1 January 2023*

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 replace the requirement of entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. The amendments to HKFRS Practice Statement 2 provide guidance on applying materiality judgements on accounting policy disclosures. In assessing the materiality of accounting policy information, entities are required to consider both the size of the transactions, other events or conditions and the nature of them. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to HKAS 8 provide a new definition for accounting estimates. The new definition states that accounting estimates are monetary amounts that are subject to material uncertainty. The amendments clarify the distinction among changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

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

(1) Foreign currency translation

These financial statements are presented in Hong Kong dollars ("HKD"), which is the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches and offices are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gains or losses on disposal.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition and subsequently measured at amortised cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity investments)
- Financial assets at FVPL

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold the 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 on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include cash and short term placements, placements with banks and financial institutions, loans and advances and receivables, and held-to-collect debt securities.

Financial assets at FVOCI (debt instruments)

The Group measures financial assets at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets designated at FVOCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as financial assets designated at FVOCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as "Other operating income" in the consolidated income statement when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. 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 FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, lease liabilities, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include deposits and balances of banks and other financial institutions at amortised cost, customer deposits at amortised cost, certificates of deposit issued at amortised cost, unsecured bank loan at amortised cost, other liabilities and foreign exchange contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ii) Financial liabilities (Continued)

Subsequent measurement (Continued)

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated income statement.

This category generally applies to customer deposits at amortised cost and unsecured bank loans at amortised cost.

(3) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in “Other liabilities” at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at FVPL. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in “Net fees and commission income” under “Other operating income” on a straight-line basis over the life of the guarantee.

(4) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Derecognition of financial assets and financial liabilities (Continued)

(i) Financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(5) Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(5) Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(6) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECL(s)") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For credit cards and revolving facilities that include both the loan and undrawn commitments, financial guarantees and letters of credit, ECLs are calculated and presented together with the loan.

For accounts receivable from contracts with customers, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loans and advances, trade bills, accrued interests, loan commitments, financial guarantee contracts and letters of credit, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

The Group considers that there has been a significant increase in credit risk (i.e. Stage 2 for ECL calculations) in all cases when contractual payments are more than 30 days past due. The Group considers a financial asset in default (i.e. Stage 3 (credit-impaired) for ECL calculations) in all cases when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

The Group provides relief measures, including principal moratorium or extension of due dates, to relieve financial burden of loan borrowers affected by the COVID-19 pandemic. Borrowers with a significant increase in credit risk (e.g. contractual payments being more than 30 days past due) are not eligible for application of the aforesaid relief scheme. In determining the loan stage of loans under relief measures, the Group considers both the delinquent period and qualitative information on the loan repayment ability as mentioned above.

It is the Group's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

Over 90% (31 December 2020: over 90%) of held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency. Over 90% (31 December 2020: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's. Therefore, they are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Moody's both to determine whether the debt instrument has a significant increase in credit risk and to estimate ECLs.

(7) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date which 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 right-of-use assets are also subject to impairment. Right-of-use assets are depreciated on a straight-line basis, as follows:

Land and buildings:	Over the lease terms plus the extension option period

Land held under finance leases

The right-of-use of leasehold land is classified as "Land held under finance leases". Lump sum payments were made upfront to acquire the leasehold land from the owners with medium-term or long-term, and no ongoing payments will be made under the terms of these land leases. Medium-term leases are leases with remaining lease periods of more than 10 years to 50 years. Long-term leases are leases with remaining lease periods of more than 50 years. It is stated at cost less accumulated depreciation and any impairment, and is depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

Lease liabilities

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term, a change in the lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in the assessment of an option to purchase the underlying asset).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

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 is accounted for on a straight-line basis over the lease terms and is included in “Other operating income” in the consolidated income statement. 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.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(8) Interest income and expense, fee and commission income and other operating income

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) <u>Fee income earned from services that are provided over a certain period of time</u>

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) <u>Fee income from providing transaction services</u>

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(9) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-collect debt securities at amortised cost with original maturity within three months.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or a liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the consolidated income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (the "CGU(s)"), or group of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(11) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(12) Property and equipment, and depreciation

Property and equipment are stated at cost, except for certain buildings transferred from investment properties which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives are as follows:

• Buildings	Over the shorter of the remaining lease terms and 50 years
• Leasehold improvements:	
Own leasehold buildings	3 to 5 years
Others	Over the shorter of the remaining lease terms and 7 years
• Furniture, fixtures, equipment and motor vehicles	3 to 10 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(13) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services; or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(13) Investment properties (Continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment, and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment, and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(14) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(15) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group will make an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or a CGU) exceeds its recoverable amount, the asset (or the CGU) that the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill and deferred tax assets, an assessment is made at each reporting date as to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(16) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are recognised under separate accounts with a corresponding reduction in the carrying amount of related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(17) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Operating expenses" in the consolidated income statement.

(18) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(18) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and 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, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)
Summary of significant accounting policies (Continued)

(19) Employee benefits

(i) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund (MPF) Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Schemes Ordinance (ORSO) Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

(ii) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(20) Dividends

Final dividends proposed by the Directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. Final dividends are recognised as a liability when they are approved by the shareholders in the general meeting.

Interim dividends and special dividends are simultaneously proposed and declared by the Directors. Consequently, interim dividends and special dividends are recognised directly as a liability when they are proposed and declared.

(21) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures

- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2021 and 31 December 2020 was HK$242,342,000. Further details are set out in note 26 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as a non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms of two to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

7. SEGMENT INFORMATION

Operating segment information

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar economic characteristics, products and services and delivery methods. The operating segments are identified by Senior Management who is designated as the "Chief Operating Decision Maker" to make decisions about resources allocation to the segments and assess their performance that is measured net of associated direct expenses. A summary of the operating segments is as follows:

- retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit-taking and lending, interest rate risk management and the overall funding management of the Group;

- wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and

- other businesses segment comprises mainly the letting of investment properties.

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2021 and 31 December 2020.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2021 HK$'000	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**1,274,304**	1,242,886	**(89)**	(502)	**-**	–	**1,274,215**	1,242,384
Other operating income:								
Net fees and commission income	**118,383**	126,173	**65,692**	82,975	**-**	–	**184,075**	209,148
Others	**33,544**	98,169	**10**	883	**8,003**	7,950	**41,557**	107,002
Operating income	**1,426,231**	1,467,228	**65,613**	83,356	**8,003**	7,950	**1,499,847**	1,558,534
Operating profit/(loss) after credit loss expenses before tax	**541,574**	460,097	**28,459**	45,632	**5,499**	(7,343)	**575,532**	498,386
Tax							**(99,449)**	(78,517)
Profit for the year							**476,083**	419,869
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(35,478)**	(35,154)	**-**	–	**-**	–	**(35,478)**	(35,154)
Depreciation of right-of-use assets	**(93,630)**	(96,885)	**-**	–	**-**	–	**(93,630)**	(96,885)
Changes in fair value of investment properties	**-**	–	**-**	–	**2,447**	(10,160)	**2,447**	(10,160)
Credit loss expenses	**(90,951)**	(186,367)	**-**	–	**-**	–	**(90,951)**	(186,367)
Net losses on disposal of property and equipment	**(7)**	(18)	**-**	–	**-**	–	**(7)**	(18)

Notes to Financial Statements

7. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 31 December 2021 and 31 December 2020.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets other than intangible assets and goodwill	**39,086,148**	41,001,204	**395,219**	421,085	**99,762**	97,315	**39,581,129**	41,519,604
Intangible assets	**-**	–	**718**	718	**-**	–	**718**	718
Goodwill	**242,342**	242,342	**-**	–	**-**	–	**242,342**	242,342
Segment assets	**39,328,490**	41,243,546	**395,937**	421,803	**99,762**	97,315	**39,824,189**	41,762,664
Unallocated assets:								
Deferred tax assets and tax recoverable							**40,566**	36,127
Total assets							**39,864,755**	41,798,791
Segment liabilities	**33,018,221**	35,235,867	**111,985**	152,484	**3,425**	3,307	**33,133,631**	35,391,658
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**94,617**	63,299
Total liabilities							**33,228,248**	35,454,957
Other segment information								
Additions to non-current assets – capital expenditure	**28,716**	55,936	**-**	–	**-**	–	**28,716**	55,936

7. SEGMENT INFORMATION (Continued)

Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets.

The following table discloses the segment revenue information for geographical segments for the years ended 31 December 2021 and 31 December 2020.

	2021 **HK$'000**	2020 HK$'000
Segment revenue from external customers:		
Hong Kong	**1,388,482**	1,429,457
Mainland China	**111,365**	129,077
	1,499,847	1,558,534

Segment revenue is allocated to the reportable segments with reference to interest, fees and commission income generated by these segments.

The following table discloses the non-current assets information for geographical segments as at 31 December 2021 and 31 December 2020.

	2021 **HK$'000**	2020 HK$'000
Non-current assets:		
Hong Kong	**802,425**	756,914
Mainland China	**28,385**	23,900
	830,810	780,814

Non-current assets consist of investment properties, property and equipment, land held under finance leases, goodwill, right-of-use assets and intangible assets.

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2020: less than 10%) of the Group's total operating income or revenue.

Notes to Financial Statements

8. INTEREST INCOME AND EXPENSE

	2021 HK$'000	2020 HK$'000
Interest income from:		
Loans and advances and receivables	**1,337,045**	1,465,130
Short term placements and placements with banks	**43,954**	62,988
Held-to-collect debt securities at amortised cost	**39,675**	98,559
	1,420,674	1,626,677
Interest expense on:		
Deposits from banks and financial institutions	**1,085**	5,211
Deposits from customers	**142,074**	374,893
Bank loans	**248**	651
Others	**3,052**	3,538
	146,459	384,293

Interest income and interest expense for the year ended 31 December 2021, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK$1,420,674,000 and HK$146,459,000 (2020: HK$1,626,677,000 and HK$384,293,000) respectively.

9. OTHER OPERATING INCOME

	2021 HK$'000	2020 HK$'000
Fees and commission income:		
Retail and commercial banking	**120,911**	128,505
Wealth management services, stockbroking and securities management	**65,692**	82,975
	186,603	211,480
Less: Fees and commission expenses	**(2,528)**	(2,332)
Net fees and commission income	**184,075**	209,148
Gross rental income	**8,040**	7,992
Less: Direct operating expenses	**(37)**	(42)
Net rental income	**8,003**	7,950
Gains less losses arising from dealing in foreign currencies	**34,555**	5,597
Net (losses)/gains on derivative financial instruments	**(5,197)**	23,069
	29,358	28,666
Net losses on disposal of property and equipment	**(7)**	(18)
Gain on termination of leases	**1,524**	1,309
Dividend income from listed investments	**202**	156
Dividend income from unlisted investments	**35**	35
Government subsidies	**1,047**	67,238
Others	**1,395**	1,666
	225,632	316,150

Direct operating expenses included repairs and maintenance expenses arising from investment properties.

For the year ended 31 December 2021, the government subsidy was granted under the Financial Industry Recruitment Scheme for Tomorrow which aims to create full-time jobs in the financial services sector under the Anti-epidemic Fund of the Hong Kong Government.

For the year ended 31 December 2020, the government subsidies were granted under the Employment Support Scheme, Subsidy Scheme for the Securities Industry and one-off subsidy for transport trades which aim to retain employment and combat the COVID-19 epidemic under the same fund.

There were no net gains or losses arising from equity investments at FVOCI, loans and advances and receivables, financial assets and financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the years ended 31 December 2021 and 31 December 2020.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVPL. No fees and commission income and expenses are related to trust and other fiduciary activities.

Notes to Financial Statements

10. OPERATING EXPENSES

	Notes	2021 HK$'000	2020 HK$'000
Staff costs:			
Salaries and other staff costs		**487,604**	494,705
Pension contributions		**22,951**	24,790
Less: Forfeited contributions		**(88)**	(59)
Net contribution to retirement benefit schemes		**22,863**	24,731
		510,467	519,436
Other operating expenses:			
Depreciation of right-of-use assets	20	**93,630**	96,885
Depreciation of property and equipment and land held under finance leases	23, 24	**35,478**	35,154
Auditors' remuneration		**4,143**	4,084
Administrative and general expenses		**67,649**	77,027
Others		**124,444**	131,035
Operating expenses before changes in fair value of investment properties		**835,811**	863,621

As at 31 December 2021 and 31 December 2020, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the years ended 31 December 2021 and 31 December 2020 arose in respect of staff who left the schemes during the years.

11. CREDIT LOSS EXPENSES

The following tables show the changes in ECL on financial instruments for the years recorded in the consolidated income statement.

	2021			
	12-month expected credit loss (Stage 1) HK$'000	**Lifetime expected credit loss not credit impaired (Stage 2) HK$'000**	**Lifetime expected credit loss credit impaired (Stage 3) HK$'000**	**Total HK$'000**
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	**42**	**(2,154)**	**92,163**	**90,051**
– trade bills, accrued interest and other receivables	**108**	**–**	**944**	**1,052**
– cash and short term placements	**(193)**	**–**	**–**	**(193)**
– placements with banks and financial institutions	**52**	**–**	**–**	**52**
– held-to-collect debt securities at amortised cost	**(25)**	**–**	**–**	**(25)**
– loan commitments	**14**	**–**	**–**	**14**
– financial guarantees and letters of credit	**–**	**–**	**–**	**–**
	(2)	**(2,154)**	**93,107**	**90,951**

11. CREDIT LOSS EXPENSES (Continued)

	2020			
	12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(13,393)	(13,857)	212,991	185,741
– trade bills, accrued interest and other receivables	(504)	(12)	922	406
– cash and short term placements	186	–	–	186
– placements with banks and financial institutions	24	–	–	24
– held-to-collect debt securities at amortised cost	64	–	–	64
– loan commitments	(53)	–	–	(53)
– financial guarantees and letters of credit	(1)	–	–	(1)
	(13,677)	(13,869)	213,913	186,367

12. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 HK$'000	2020 HK$'000
Fees	**4,053**	3,725
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,414**	3,861
Retirement benefits contribution	**142**	261
	7,609	7,847

Notes to Financial Statements

13. TAX

	Note	2021 HK$'000	2020 HK$'000
Current tax charge:			
Hong Kong		**81,681**	50,425
Overseas		**20,039**	24,036
Over-provision in prior years		**–**	(1,058)
Deferred tax (credit)/charge, net	28	**(2,271)**	5,114
		99,449	78,517

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the Bank and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	2021					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**502,693**		**72,839**		**575,532**	
Tax at the applicable tax rate	**82,944**	**16.5**	**18,210**	**25.0**	**101,154**	**17.6**
Estimated tax effect of net (income)/expenses that is/are not (taxable)/ deductible	**(1,719)**	**(0.3)**	**14**	**–**	**(1,705)**	**(0.3)**
Adjustments in respect of current tax of previous years	**–**	**–**	**–**	**–**	**–**	**–**
Tax charge at the Group's effective rate	**81,225**	**16.2**	**18,224**	**25.0**	**99,449**	**17.3**

13. TAX (Continued)

	2020					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	411,567		86,819		498,386	
Tax at the applicable tax rate	67,908	16.5	21,705	25.0	89,613	18.0
Estimated tax effect of net (income)/expenses that is/are not (taxable)/ deductible	(10,257)	(2.5)	219	0.3	(10,038)	(2.0)
Adjustments in respect of current tax of previous years	(1,058)	(0.2)	–	–	(1,058)	(0.2)
Tax charge at the Group's effective rate	56,593	13.8	21,924	25.3	78,517	15.8

14. DIVIDENDS

(a) Dividends approved and paid during the year

	2021 HK$ per ordinary share	2020 HK$ per ordinary share	**2021 HK$'000**	2020 HK$'000
Interim dividend	**6.768**	4.453	**100,275**	65,976
Final dividend in respect of previous year	**7.453**	6.123	**110,424**	90,718
	14.221	10.576	**210,699**	156,694

Final dividend of 2020 was paid in 2021 with the consent of shareholders at the 2021 AGM.

Notes to Financial Statements

14. DIVIDENDS (Continued)

(b) Dividends attributable to the year

	2021 HK$ per ordinary share	2020 HK$ per ordinary share	2021 HK$'000	2020 HK$'000
Interim dividend	**6.768**	4.453	**100,275**	65,976
Proposed final dividend	**9.298**	7.453	**137,759**	110,424
	16.066	11.906	**238,034**	176,400

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end dates. The proposed final dividend of 2021 is subject to the approval of shareholders at the 2022 AGM.

15. CASH AND SHORT TERM PLACEMENTS

	2021 HK$'000	2020 HK$'000
Cash on hand	**191,781**	173,492
Placements with banks and financial institutions	**849,907**	1,044,990
Money at call and short notice	**3,278,838**	5,006,156
Gross cash and short term placements	**4,320,526**	6,224,638
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	**(605)**	(419)
Credit loss expenses released/(charged) to the consolidated income statement during the year	**193**	(186)
	(412)	(605)
Cash and short term placements	**4,320,114**	6,224,033

Over 90% (31 December 2020: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions and no impairment allowances specifically assessed for such placements accordingly.

16. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH BUT NOT MORE THAN TWELVE MONTHS

	2021 **HK$'000**	2020 HK$'000
Gross placements with banks and financial institutions	**2,290,340**	1,771,343
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	**(177)**	(153)
Credit loss expenses charged to the consolidated income statement during the year	**(52)**	(24)
	(229)	(177)
Placements with banks and financial institutions	**2,290,111**	1,771,166

Over 90% (31 December 2020: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions maturing after one month but not more than twelve months and no impairment allowances specifically assessed for such placements accordingly.

Notes to Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES

	2021 HK$'000	2020 HK$'000
Loans and advances to customers	**25,754,537**	25,815,957
Trade bills	**11,989**	20,981
Loans and advances, and trade bills	**25,766,526**	25,836,938
Accrued interest	**71,106**	68,251
	25,837,632	25,905,189
Other receivables	**3,498**	1,898
Gross loans and advances and receivables	**25,841,130**	25,907,087
Less: Impairment allowances*		
– specifically assessed	**(65,621)**	(59,874)
– collectively assessed	**(117,855)**	(119,845)
	(183,476)	(179,719)
Loans and advances and receivables	**25,657,654**	25,727,368

Over 90% (31 December 2020: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2020: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

* *The balances also include the impairment allowances of HK$32,000 and HK$18,000 on off-balance sheet credit exposures as at 31 December 2021 and 31 December 2020 respectively.*

Loans and advances and receivables are summarised as follows:

	2021 HK$'000	2020 HK$'000
Neither past due nor impaired loans and advances and receivables	**25,033,237**	25,146,434
Past due but not impaired loans and advances and receivables	**560,025**	540,839
Credit impaired loans and advances	**234,381**	210,905
Credit impaired receivables	**13,487**	8,909
Gross loans and advances and receivables	**25,841,130**	25,907,087

About 68% (31 December 2020: about 69%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) (i) Ageing analysis of overdue and impaired loans and advances

	2021 Gross amount HK$'000	**2021** Percentage of total loans and advances %	2020 Gross amount HK$'000	2020 Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**53,068**	**0.21**	62,761	0.24
One year or less but over six months	**23,774**	**0.09**	41,003	0.16
Over one year	**118,045**	**0.46**	49,297	0.19
Loans and advances overdue for more than three months	**194,887**	**0.76**	153,061	0.59
Rescheduled loans and advances overdue for three months or less	**28,165**	**0.11**	53,761	0.21
Impaired loans and advances overdue for three months or less	**11,329**	**0.04**	4,083	0.02
Total overdue and impaired loans and advances	**234,381**	**0.91**	210,905	0.82

(ii) Ageing analysis of overdue and impaired trade bills, accrued interest and other receivables

	2021 HK$'000	2020 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**471**	525
One year or less but over six months	**1,158**	2,017
Over one year	**11,792**	6,338
Trade bills, accrued interest and other receivables overdue for more than three months	**13,421**	8,880
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**66**	29
Total overdue and impaired trade bills, accrued interest and other receivables	**13,487**	8,909

Impaired loans and advances and receivables are individually determined to be impaired after considering the overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

Notes to Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(b) Geographical analysis of overdue and impaired loans and advances and receivables, and impairment allowances

	2021 **Hong Kong** **HK$'000**	**Mainland China** **HK$'000**	**Total** **HK$'000**	2020 Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**95,086**	**113,222**	**208,308**	88,229	73,712	161,941
Impairment allowances specifically assessed	**40,335**	**12,207**	**52,542**	33,660	7,995	41,655
Current market value and fair value of collateral			**259,176**			194,175
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**133,010**	**114,858**	**247,868**	146,102	73,712	219,814
Impairment allowances specifically assessed	**53,414**	**12,207**	**65,621**	51,879	7,995	59,874
Current market value and fair value of collateral			**278,001**			201,861

Over 90% (31 December 2020: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(c) The value of collateral held in respect of the overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

	2021 **HK$'000**	2020 HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**259,176**	194,175
Covered portion of overdue loans and advances	**147,671**	111,175
Uncovered portion of overdue loans and advances	**47,216**	41,886

The assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Group's right to repossess the asset is legally enforceable without impediment.

– The Group is able to secure control over the asset if necessary.

The main types of guarantors for credit risk mitigation are as follows:

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2021, the total value of repossessed assets of the Group amounted to HK$34,145,000 (31 December 2020: HK$19,890,000).

Notes to Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(e) Past due but not impaired loans and advances and receivables

	2021 Gross amount HK$'000	2021 Percentage of total loans and advances %	2020 Gross amount HK$'000	2020 Percentage of total loans and advances %
Loans and advances overdue for three months or less	**556,692**	**2.16**	537,717	2.08
Trade bills, accrued interest and other receivables overdue for three months or less	**3,333**		3,122	

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures

An analysis of changes in the gross amount of loans and advances and receivables is as follows:

	2021 Stage 1 HK$'000	2021 Stage 2 HK$'000	2021 Stage 3 HK$'000	2021 Total HK$'000
Gross loans and advances and receivables as at 1 January 2021	**25,419,405**	**267,868**	**219,814**	**25,907,087**
New loans/financing originated	**6,980,773**	**1,900**	**4,132**	**6,986,805**
Loans/financing derecognised or repaid during the year (other than write-offs)	**(6,762,196)**	**(40,313)**	**(50,877)**	**(6,853,386)**
Transfer to 12-month expected credit loss (Stage 1)	**105,536**	**(90,293)**	**(15,243)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(190,506)**	**192,228**	**(1,722)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(210,628)**	**(80,512)**	**291,140**	**–**
Total transfer between stages	**(295,598)**	**21,423**	**274,175**	**–**
Write-offs	**–**	**–**	**(199,376)**	**(199,376)**
As at 31 December 2021	**25,342,384**	**250,878**	**247,868**	**25,841,130**
Arising from:				
Loans and advances	**25,271,368**	**248,788**	**234,381**	**25,754,537**
Trade bills, accrued interest and other receivables	**71,016**	**2,090**	**13,487**	**86,593**
	25,342,384	**250,878**	**247,868**	**25,841,130**

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$159,889,000.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

	2020 Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2020	28,061,587	249,427	193,933	28,504,947
New loans/financing originated	7,392,935	122	4,807	7,397,864
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,578,405)	(66,262)	(24,074)	(9,668,741)
Transfer to 12-month expected credit loss (Stage 1)	100,724	(78,156)	(22,568)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(214,904)	220,558	(5,654)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(342,532)	(57,821)	400,353	–
Total transfer between stages	(456,712)	84,581	372,131	–
Write-offs	–	–	(326,983)	(326,983)
As at 31 December 2020	25,419,405	267,868	219,814	25,907,087
Arising from:				
Loans and advances	25,339,293	265,759	210,905	25,815,957
Trade bills, accrued interest and other receivables	80,112	2,109	8,909	91,130
	25,419,405	267,868	219,814	25,907,087

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$270,681,000.

Notes to Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

An analysis of credit risk exposure by the Group's internal credit rating system is as follows:

	2021			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**25,130,487**	**–**	**–**	**25,130,487**
Special Mention	**211,897**	**250,878**	**–**	**462,775**
Non-performing				
Substandard	**–**	**–**	**85,574**	**85,574**
Doubtful	**–**	**–**	**145,440**	**145,440**
Loss	**–**	**–**	**16,854**	**16,854**
Total	**25,342,384**	**250,878**	**247,868**	**25,841,130**

	2020			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	25,165,589	–	–	25,165,589
Special Mention	253,816	267,868	–	521,684
Non-performing				
Substandard	–	–	147,608	147,608
Doubtful	–	–	56,269	56,269
Loss	–	–	15,937	15,937
Total	25,419,405	267,868	219,814	25,907,087

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

An analysis of changes in the corresponding ECL allowances is as follows:

	2021			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2021	95,768	24,077	59,874	179,719
New loans/financing originated	53,724	–	531	54,255
Loans/financing derecognised or repaid during the year (other than write-offs)	(53,697)	(4,189)	(118,062)	(175,948)
Transfer to 12-month expected credit loss (Stage 1)	6,204	(3,346)	(2,858)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,642)	1,779	(137)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(5,883)	(15,362)	21,245	–
Total transfer between stages	(1,321)	(16,929)	18,250	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(3,442)	18,983	168,635	184,176
Movements due to changes in credit risk	4,900	(19)	23,753	28,634
Recoveries	–	–	112,016	112,016
Write-offs	–	–	(199,376)	(199,376)
As at 31 December 2021	95,932	21,923	65,621	183,476
Arising from:				
Loans and advances	94,577	21,910	63,624	180,111
Trade bills, accrued interest and other receivables	1,323	13	1,997	3,333
Loan commitments	30	–	–	30
Financial guarantees and letters of credit	2	–	–	2
	95,932	21,923	65,621	183,476

Notes to Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

	2020			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2020	109,719	37,946	69,002	216,667
New loans/financing originated	58,510	–	264	58,774
Loans/financing derecognised or repaid during the year (other than write-offs)	(66,108)	(8,761)	(110,016)	(184,885)
Transfer to 12-month expected credit loss (Stage 1)	4,563	(821)	(3,742)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(3,802)	4,134	(332)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(10,825)	(27,638)	38,463	–
Total transfer between stages	(10,064)	(24,325)	34,389	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(1,854)	19,219	254,846	272,211
Movements due to changes in credit risk	5,565	(2)	34,430	39,993
Recoveries	–	–	103,942	103,942
Write-offs	–	–	(326,983)	(326,983)
As at 31 December 2020	95,768	24,077	59,874	179,719
Arising from:				
Loans and advances	94,535	24,064	58,821	177,420
Trade bills, accrued interest and other receivables	1,215	13	1,053	2,281
Loan commitments	16	–	–	16
Financial guarantees and letters of credit	2	–	–	2
	95,768	24,077	59,874	179,719

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

Included in loans and advances and receivables were receivables in respect of assets leased under finance leases as set out below:

	2021	2020	2021	2020
	Undiscounted lease payments		**Net investment in finance leases**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**406,350**	370,053	**266,342**	237,644
Over one year but within two years	**348,885**	321,793	**229,645**	208,191
Over two years but within three years	**298,033**	280,518	**186,761**	174,282
Over three years but within four years	**256,102**	237,055	**150,386**	135,960
Over four years but within five years	**229,673**	207,145	**127,888**	109,549
Over five years	**5,232,762**	5,190,583	**4,014,407**	3,952,305
	6,771,805	6,607,147	**4,975,429**	4,817,931
Less: Unearned finance income	**(1,796,376)**	(1,789,216)		
Net investment in finance leases	**4,975,429**	4,817,931		

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	HK$'000	HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the year	**6,804**	6,804

The above investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature. Fair value is measured based on the present value of expected cash flows in the foreseeable future.

During the year, the Group received dividends of HK$35,000 (2020: HK$35,000) from the above investments.

Notes to Financial Statements

19. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST

	2021 HK$'000	2020 HK$'000
Certificates of deposit held	**3,384,230**	3,536,714
Treasury bills and government bonds (including Exchange Fund Bills)	**2,071,457**	2,047,479
Other debt securities	**1,024,028**	1,151,744
Gross held-to-collect debt securities at amortised cost	**6,479,715**	6,735,937
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	**(674)**	(610)
Credit loss expenses released/(charged) to the consolidated income statement during the year	**25**	(64)
	(649)	(674)
	6,479,066	6,735,263
Listed or unlisted:		
– Listed in Hong Kong	**1,024,776**	566,036
– Listed outside Hong Kong	**107,590**	35,855
– Unlisted	**5,347,349**	6,134,046
	6,479,715	6,735,937
Analysed by type of issuers:		
– Central governments	**2,071,457**	2,047,479
– Public sector entities	**500,000**	499,991
– Corporates	**31,484**	–
– Banks and other financial institutions	**3,876,774**	4,188,467
	6,479,715	6,735,937

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 31 December 2021 and 31 December 2020.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 2021 and 31 December 2020.

Over 90% (31 December 2020: over 90%) of held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's.

20. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has entered into lease arrangements with landlords, and the terms of the leases range from 1 to 10 years.

The Group has several lease contracts that include extension options ranging from 2 to 3 years. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (see note 6 to the financial statements). During the years ended 31 December 2021 and 31 December 2020, management had considered to exercise all extension options available in the lease contracts which had 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.

Notes to Financial Statements

20. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the years:

Right-of-use assets:

	Land and buildings HK$'000
Cost:	
As at 1 January 2020	318,985
Additions	50,762
Reassessment	(3,364)
Written off	(25,330)
As at 31 December 2020 and 1 January 2021	**341,053**
Additions	**146,811**
Reassessment	**935**
Written off	**(125,663)**
As at 31 December 2021	**363,136**
Accumulated depreciation and impairment:	
As at 1 January 2020	149,382
Depreciation provided during the year	96,885
Written off	(25,330)
Exchange difference	(511)
As at 31 December 2020 and 1 January 2021	**220,426**
Depreciation provided during the year	**93,630**
Written off	**(125,663)**
Exchange difference	**(207)**
As at 31 December 2021	**188,186**
Net carrying amount:	
As at 31 December 2021	**174,950**
As at 31 December 2020	120,627

20. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Set out below are the carrying amounts of lease liabilities and the movements during the years:

Lease liabilities:

	Land and buildings HK$'000
As at 1 January 2020	173,993
Additions	49,425
Interest expense	3,417
Payments	(98,029)
Reassessment	(3,391)
Exchange difference	570
As at 31 December 2020 and 1 January 2021	**125,985**
Additions	**143,833**
Interest expense	**2,937**
Payments	**(94,947)**
Reassessment	**831**
Exchange difference	**222**
As at 31 December 2021	**178,861**

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

The followings are the amounts recognised in profit or loss:

	2021 HK$'000	2020 HK$'000
Depreciation expense of right-of-use assets	**93,630**	96,885
Interest expense on lease liabilities	**2,937**	3,417
Expense relating to short-term leases	**342**	342
Expense relating to leases of low-value assets	**2,348**	2,291
	99,257	102,935

The Group had total cash outflows for leases of HK$94,947,000 in 2021 (2020: HK$98,029,000). The future cash outflows relating to leases committed but not yet commenced are disclosed in note 32(b) to the financial statements.

Notes to Financial Statements

21. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	2021 HK$'000	2020 HK$'000
Interest receivable from financial institutions	**15,783**	15,260
Other debtors, deposits and prepayments	**181,831**	447,490
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**40,465**	28,715
	238,079	491,465

There were no other overdue or rescheduled assets, and no impairment allowances for such other assets accordingly.

Other liabilities

	2021 HK$'000	2020 HK$'000
Interest payable	**26,011**	50,293
Creditors, accruals and other payables	**261,082**	485,586
Net amount of accounts payable to HKSCC	**13,781**	100,845
	300,874	636,724

Public Financial Securities Limited and Public Securities Limited maintain accounts with HKSCC through which they conduct securities trading transactions and settlement on a net basis.

21. OTHER ASSETS AND OTHER LIABILITIES (Continued)

In presenting the amounts due from and to HKSCC, the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

	Gross amount HK$'000	Amount offset HK$'000	Net amount HK$'000
Other assets			
2021			
Amount of accounts receivable from HKSCC	**83,485**	**(43,020)**	**40,465**
2020			
Amount of accounts receivable from HKSCC	167,388	(138,673)	28,715
Other liabilities			
2021			
Amount of accounts payable to HKSCC	**(56,801)**	**43,020**	**(13,781)**
2020			
Amount of accounts payable to HKSCC	(239,518)	138,673	(100,845)

22. INTANGIBLE ASSETS

	2021 HK$'000	2020 HK$'000
Cost:		
At the beginning and the end of the year	**1,923**	1,923
Accumulated impairment:		
At the beginning and the end of the year	**1,205**	1,205
Net carrying amount:		
At the beginning and the end of the year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2020: five units) of Stock Exchange Trading Right and one unit (31 December 2020: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

23. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
Cost:			
As at 1 January 2020	22,265	343,710	365,975
Additions	–	55,936	55,936
Disposals/write-off	–	(5,400)	(5,400)
As at 31 December 2020 and 1 January 2021	**22,265**	**394,246**	**416,511**
Additions	**–**	**28,716**	**28,716**
Disposals/write-off	**–**	**(5,038)**	**(5,038)**
As at 31 December 2021	**22,265**	**417,924**	**440,189**
Accumulated depreciation:			
As at 1 January 2020	8,143	233,484	241,627
Provided during the year	480	30,939	31,419
Disposals/write-off	–	(5,264)	(5,264)
As at 31 December 2020 and 1 January 2021	**8,623**	**259,159**	**267,782**
Provided during the year	**480**	**31,264**	**31,744**
Disposals/write-off	**–**	**(5,026)**	**(5,026)**
As at 31 December 2021	**9,103**	**285,397**	**294,500**
Net carrying amount:			
As at 31 December 2021	**13,162**	**132,527**	**145,689**
As at 31 December 2020	13,642	135,087	148,729

There were no impairment allowances made against the above items of property and equipment as at 31 December 2021 and 31 December 2020. There were no movements in impairment allowances for the years ended 31 December 2021 and 31 December 2020.

24. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2020, 31 December 2020 and 1 January 2021	231,594
As at 31 December 2021	**231,594**
Accumulated depreciation and impairment:	
As at 1 January 2020	56,776
Depreciation provided during the year	3,735
As at 31 December 2020 and 1 January 2021	**60,511**
Depreciation provided during the year	**3,734**
As at 31 December 2021	**64,245**
Net carrying amount:	
As at 31 December 2021	**167,349**
As at 31 December 2020	171,083

The Group's land held under finance leases at net carrying amount is held under the following lease terms:

	2021 HK$'000	2020 HK$'000
Leaseholds:		
Held in Hong Kong		
– On long-term leases	**88,348**	88,452
– On medium-term leases	**67,897**	70,972
Held outside Hong Kong		
– On medium-term leases	**11,104**	11,659
	167,349	171,083

Land leases are stated at the recoverable amount and are subject to an impairment test pursuant to HKAS 36, which is based on the higher of fair value less costs of disposal and value-in-use.

25. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2020	107,475
Changes in fair value recognised in the consolidated income statement	(10,160)
As at 31 December 2020 and 1 January 2021	**97,315**
Changes in fair value recognised in the consolidated income statement	**2,447**
As at 31 December 2021	**99,762**

The Group's investment properties are situated in Hong Kong and are held under medium-term and long-term leases in Hong Kong.

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2020: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 31 December 2021, investment properties were revalued according to the valuation assessed by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

The fair value of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	2021		2020	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**80,000 to 521,000**	**235,000**	78,000 to 508,000	229,000

A significant increase/decrease in the price per square metre would result in a significant increase/decrease in the fair value of the investment properties.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 32(a) to the financial statements.

26. GOODWILL

	2021 **HK$'000**	2020 HK$'000
Cost and net carrying amount:		
At the beginning and the end of the year	**242,342**	242,342

Impairment test of goodwill

There is a CGU, namely Public Finance, which represents the operating entity within the business segment "retail and commercial banking businesses" identified by the Group. The recoverable amount of the CGU at each subsequent reporting date is determined based on the value-in-use using the present value of cash flows. The cash flow projections are based on financial plans approved by management and assumed growth rates are used to extrapolate the cash flows beyond 5 years. The financial projections considers the sustainability of business growth, stability of core business developments, long-term economic cycle, availability of financial resources for business expansion and compliance with regulatory capital and liquidity requirements, and achievement of business targets extrapolated from a track record of financial results. Management's financial model assumes an average growth rate of 3.0% per annum from the sixth years taking into account long-term gross domestic product growth and other relevant economic factors. A discount rate of 6.9% is used based on the pre-tax weighted average cost of capital plus an appropriate risk premium specifically relating to the CGU at the date of assessment.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2021 and 31 December 2020 as its value-in-use exceeded its carrying amount.

27. CUSTOMER DEPOSITS AT AMORTISED COST

	2021 **HK$'000**	2020 HK$'000
Demand deposits and current accounts	**4,670,956**	4,533,183
Savings deposits	**8,114,462**	7,617,851
Time, call and notice deposits	**19,396,092**	22,054,095
	32,181,510	34,205,129

Notes to Financial Statements

28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2020	34,247	437	34,684
Deferred tax (charged)/credited to the consolidated income statement	(2,012)	114	(1,898)
Exchange difference	1,600	28	1,628
As at 31 December 2020 and 1 January 2021	**33,835**	**579**	**34,414**
Deferred tax credited/(charged) to the consolidated income statement	**3,320**	**(77)**	**3,243**
Exchange difference	**995**	**17**	**1,012**
As at 31 December 2021	**38,150**	**519**	**38,669**

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
As at 1 January 2020	18,179
Deferred tax charged to the consolidated income statement	3,216
As at 31 December 2020 and 1 January 2021	**21,395**
Deferred tax charged to the consolidated income statement	**972**
As at 31 December 2021	**22,367**

29. SHARE CAPITAL

	2021 HK$'000	2020 HK$'000
Issued and fully paid:		
14,816,000 (2020: 14,816,000) ordinary shares	**2,854,045**	2,854,045

30. RESERVES

	Note	Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2020		3,065	17,660	207,735	2,945,115	(2,407)	3,171,168
Profit for the year		–	–	–	419,869	–	419,869
Other comprehensive income		–	–	–	–	55,446	55,446
Transfer from regulatory reserve to retained profits		–	–	(154,455)	154,455	–	–
Dividends paid in respect of previous year	14	–	–	–	(90,718)	–	(90,718)
Dividends paid in respect of current year	14	–	–	–	(65,976)	–	(65,976)
As at 31 December 2020 and 1 January 2021		**3,065**	**17,660**	**53,280**	**3,362,745**	**53,039**	**3,489,789**
Profit for the year		**–**	**–**	**–**	**476,083**	**–**	**476,083**
Other comprehensive income		**–**	**–**	**–**	**–**	**27,289**	**27,289**
Transfer from retained profits to regulatory reserve		**–**	**–**	**1,532**	**(1,532)**	**–**	**–**
Dividends paid in respect of previous year	14	**–**	**–**	**–**	**(110,424)**	**–**	**(110,424)**
Dividends paid in respect of current year	14	**–**	**–**	**–**	**(100,275)**	**–**	**(100,275)**
As at 31 December 2021		**3,065**	**17,660**	**54,812**	**3,626,597**	**80,328**	**3,782,462**

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guidelines.

Notes to Financial Statements

31. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities, commitments and derivatives of the Group outstanding at the end of the year:

	2021 Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	23,011	23,011	18,365	–	–
Transaction-related contingencies	4,002	2,001	816	–	–
Trade-related contingencies	11,601	2,320	2,223	–	–
Forward forward deposits placed	272,874	272,874	54,575	–	–
Forward asset purchases	–	–	–	–	–
	311,488	300,206	75,979	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	934,327	15,253	3,051	1,551	6,748
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	77,920	38,960	38,960	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,256,137	–	–	–	–
	3,579,872	354,419	117,990	1,551	6,748

	2021 Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	8,347

31. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

	2020				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	22,727	22,727	18,792	–	–
Transaction-related contingencies	6,899	3,449	831	–	–
Trade-related contingencies	21,976	4,396	3,032	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	51,602	30,572	22,655	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	995,089	35,697	7,140	25,751	2,682
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	16,393	8,197	8,197	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,439,894	–	–	–	–
	3,502,978	74,466	37,992	25,751	2,682

	2020 Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	13,144

Notes to Financial Statements

31. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances as disclosed in note 17(f) to the financial statements.

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the Capital Rules and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities, commitments and derivatives.

As at 31 December 2021 and 31 December 2020, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations established in an organised financial market to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell a foreign currency or a financial instrument on a future date at a specified price. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

32. LEASE

(a) As lessor

The Group leases its investment properties as disclosed in note 25 to the financial statements under operating lease arrangements, and the terms of the leases range from 1 to 4 years.

As at 31 December 2021 and 31 December 2020, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2021 **HK$'000**	2020 HK$'000
Within one year	**2,589**	1,895
Over one year but within two years	**653**	908
Over two years but within three years	**456**	274
Over three years but within four years	**228**	–
	3,926	3,077

(b) As lessee

The Group has entered into certain future lease arrangements with landlords, and the terms of the leases range from 2 to 3 years. As at 31 December 2021 and 31 December 2020, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	2021 **HK$'000**	2020 HK$'000
Within one year	**4,331**	4,282
In the second to fifth years, inclusive	**8,074**	11,122
Over five years	**–**	30
	12,405	15,434

33. RELATED PARTY TRANSACTIONS

In addition to the remuneration details of the Directors, who represent the key management personnel of the Group, in note 12 to the financial statements, the Group had the following major transactions with related parties in the normal course of business during the year. The details of related party transactions, related expenses and income for the year and outstanding balances as at the year end are as follows:

	Notes	**2021 HK$'000**	2020 HK$'000
Related party transactions included in the consolidated income statement:			
Management fees and bank service charges from a fellow subsidiary	(a)	**581**	556
Rent paid to the immediate holding company	(b)	**33,913**	33,429
Interest paid to the ultimate holding company	(d)	**173**	15
Interest paid to fellow subsidiaries	(d)	**64**	114
Interest paid to key management personnel	(d)	**7**	34
Commission income from key management personnel	(h)	**4**	4
Commitment fees and service fees paid to fellow subsidiaries	(e)	**155**	11
Commitment fees paid to the ultimate holding company	(g)	**3,960**	3,954

	Notes	**2021 HK$'000**	2020 HK$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(c)	**6,849**	5,109
Rental deposits and rent prepaid to the immediate holding company	(b)	**50,151**	49,221
Deposits from the ultimate holding company	(d)	**12,488**	7,156
Deposits from the immediate holding company	(d)	**2,737**	3,821
Deposits from fellow subsidiaries	(d)	**9,780**	15,352
Deposits from key management personnel	(d)	**2,582**	2,611
Interest payable to key management personnel	(d)	**1**	–
Amounts due from a fellow subsidiary included in other assets	(f)	**1,099**	482

33. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) Management fees arose in respect of administrative services provided to a fellow subsidiary by the Group. They were charged based on costs incurred during the year. Bank service charges arose in respect of banking services provided to the fellow subsidiary by the Group during the year.

(b) Rent paid, rent prepaid, rental deposits and building management fee were related to properties rented from the immediate holding company as the Bank's offices during the year.

(c) The Group placed deposits with the ultimate holding company. Interests were received/receivable from the ultimate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the consolidated statement of financial position.

(d) The ultimate holding company, the immediate holding company, fellow subsidiaries and key management personnel placed deposits with the Bank at the prevailing market rates. Interest expenses were paid/payable by the Bank for the year in respect of these placements. The balances were included in customer deposits in the consolidated statement of financial position. During the year, a revolving credit facility was granted by a fellow subsidiary to a subsidiary of the Group. Interest expense was paid/payable by the subsidiary for the year in respect of this facility.

(e) During the year, commitment fees were paid to Public Bank (L) Ltd in order to obtain revolving credit facilities granted by Public Bank (L) Ltd to Public Securities Limited.

During the year, services fees were paid to Public Investment Bank Berhad from Public Securities Limited for referral of stock broking business.

(f) These balances include other receivables from a fellow subsidiary.

(g) During the year, commitment fees were paid to the ultimate holding company in order to obtain standby facilities granted by the ultimate holding company to the Bank.

(h) Commission income was received from key management personnel of the Group for securities dealings through the Group companies.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of financial instruments which are not carried at fair value in the financial statements.

Liquid or/and very short term and variable rate financial instruments

Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or having a short-term maturity or carrying interest at a variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments

Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. The fair values of these fixed rate financial instruments carried at amortised cost are determined based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

(b) Financial assets and financial liabilities carried at fair value

The following tables show an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	2021			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	1,551	–	1,551
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	1,551	6,804	8,355
Financial liabilities:				
Derivative financial instruments	–	6,748	–	6,748

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and financial liabilities carried at fair value (Continued)

	2020			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	25,751	–	25,751
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	25,751	6,804	32,555
Financial liabilities:				
Derivative financial instruments	–	2,682	–	2,682

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 31 December 2021 and 31 December 2020, the effects of discounting were considered insignificant for the Level 2 financial instruments.

Level 3 financial instruments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of the Level 3 financial instruments is insignificant to the Group.

For the years ended 31 December 2021 and 31 December 2020, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2021 and 31 December 2020, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the years ended 31 December 2021 and 31 December 2020.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

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35. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 36 to the financial statements.

	2021							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,041,688	3,278,838	–	–	–	–	–	4,320,526
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,614,325	676,015	–	–	–	2,290,340
Gross loans and advances and receivables	573,800	1,678,083	1,174,266	2,597,780	6,135,419	13,419,199	262,583	25,841,130
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	281,031	1,340,646	3,611,281	1,246,757	–	–	6,479,715
Other assets	37	112,345	6,314	5,152	2,825	–	111,406	238,079
Gross foreign exchange contracts	–	589,682	344,645	–	–	–	–	934,327
Total financial assets	1,615,525	5,939,979	4,480,196	6,890,228	7,385,001	13,419,199	380,793	40,110,921
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	86,562	239,076	90,000	50,000	–	–	–	465,638
Customer deposits at amortised cost	12,832,309	5,854,040	10,289,052	3,198,869	7,240	–	–	32,181,510
Lease liabilities	–	7,286	14,174	58,778	85,808	12,815	–	178,861
Other liabilities	1,404	127,741	11,363	4,519	192	–	155,655	300,874
Gross foreign exchange contracts	–	591,530	347,994	–	–	–	–	939,524
Total financial liabilities	12,920,275	6,819,673	10,752,583	3,312,166	93,240	12,815	155,655	34,066,407
Net liquidity gap	(11,304,750)	(879,694)	(6,272,387)	3,578,062	7,291,761	13,406,384	225,138	6,044,514

35. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	2020							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,218,482	5,006,156	–	–	–	–	–	6,224,638
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,511,190	260,153	–	–	–	1,771,343
Gross loans and advances and receivables	362,551	2,032,116	664,095	2,347,238	6,664,766	13,616,507	219,814	25,907,087
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	384,690	1,451,321	4,178,935	720,991	–	–	6,735,937
Other assets	38	361,421	12,766	41,840	2,161	–	73,239	491,465
Gross foreign exchange contracts	–	564,884	430,205	–	–	–	–	995,089
Total financial assets	1,581,071	8,349,267	4,069,577	6,828,166	7,387,918	13,616,507	299,857	42,132,363
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	51,282	269,856	100,000	–	–	–	–	421,138
Customer deposits at amortised cost	12,208,094	6,429,072	11,910,812	3,649,643	7,508	–	–	34,205,129
Lease liabilities	–	7,390	14,667	33,802	64,756	5,370	–	125,985
Other liabilities	3,307	392,129	24,925	6,458	182	–	209,723	636,724
Gross foreign exchange contracts	–	555,009	417,011	–	–	–	–	972,020
Total financial liabilities	12,262,683	7,653,456	12,467,415	3,689,903	72,446	5,370	209,723	36,360,996
Net liquidity gap	(10,681,612)	695,811	(8,397,838)	3,138,263	7,315,472	13,611,137	90,134	5,771,367

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36. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits, bank loans, and deposits and balances of banks and other financial institutions. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-collect debt securities at amortised cost, loans and advances and receivables, and equity investments at FVOCI, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts held for trading. The purpose is to manage or mitigate currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk and liquidity risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk, operational risk and cyber security risk. The respective Boards of Directors (the "Boards") of the Bank and Public Finance review and approve risk management policies for managing each of these risks and they are summarised below.

Risk management structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of the Bank and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee ("CRMC"), and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of the Bank and Public Finance.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk, operational risk and cyber security risk, which are approved by the respective Boards of the Bank and Public Finance and reviewed regularly by their management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Bank and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

Interest rate risk in banking book ("IRRBB") is internally defined as current or prospective risk arising from adverse movements in market interest rates to the Group's positions in the banking book. Changes in market interest rate affect economic value of interest-bearing assets, liabilities, off-balance commitments and net interest income from such financial instruments. The primary objective of interest rate risk management is to minimise/contain the potential adverse effects of interest rate movements in economic value of equity ("EVE") and net interest income ("NII") by closely monitoring the net repricing gap of the Group's assets and liabilities.

The IRRBB comprises gap risk, basis risk and option risk. Gap risk arises from changes in interest rates on assets, liabilities and off-balance sheet positions of different maturities. Basis risk arises from imperfect correlation of timing between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. Option risk arises from the optional elements embedded in the Group's assets and liabilities that provide customers with the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

The Boards of the Bank and Public Finance are ultimately responsible for management of IRRBB and define the overall risk appetite for management of IRRBB. The RMCs are responsible for reviewing IRRBB policies, establishing risk limits in relation to EVE and NII in accordance with risk appetite and maintaining management oversight on IRRBB. The ALCOs are responsible for identifying, measuring, evaluating, controlling and monitoring IRRBB and ensuring the timely implementation of IRRBB management strategy by different departments and business lines in response to the changing market conditions. Risk Management Departments ("RMDs") assess, monitor and report interest rate risk exposures against approved risk limits and key interest rate risk related matters (such as limit excesses) to the ALCOs at least monthly, and escalate to the RMCs and the Boards for further deliberations/approval of proposed actions as necessary. The Group manages its IRRBB exposures at a desired level and within its risk tolerance thresholds through strategic planning of balance sheet compositions with matching of repricing maturity for its on-balance sheet instruments and/or off-balance sheet derivatives in each significant currency. Currently, the Group does not use interest rate instruments like interest rate swaps and interest rate futures for hedging purpose as the Group is not engaged in complex business transactions involving derivative financial instruments. Where the Group decides to implement a hedging to manage IRRBB, the hedge accounting treatment is required to be made in accordance with the HKFRSs. The Group conducts stress testing via scenario analyses to assess the adverse impact of various interest rate shocks on the Group's EVE and NII, and the outcomes are deliberated in ALCO and RMC meetings. The Group establishes model for IRRBB assessment including yield curve levels' projection of relevant interest-bearing assets and early redemption of loans. Any revisions to the existing IRRBB model or assessment methodology are deliberated by ALCOs and RMCs for the approval by the Boards. Internal Audit Departments perform independent reviews on the effectiveness of the IRRBB management system, including but not limited to the implementation/compliance of the approved policies, monitoring of risk limits, escalation of limit breaches and adequacy of IRRBB assessment methodology.

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The Group employs various analytical techniques to measure IRRBB and its impact on EVE and NII on monthly basis, including interest rate repricing profile analysis, and scenario assessment on the Group's EVE and NII under both parallel and non-parallel interest rate shocks.

For computation of the impact on EVE, the Group adopts the six prescribed standardised interest rate shock scenarios defined by the HKMA (namely parallel up, parallel down, steepener, flattener, short rate up, and short rate down) and internal parallel up and down scenarios at 100 basis points.

For computation of the impact on NII over the next twelve months, the Group adopts the standardised and internal parallel up or down scenarios as mentioned above and also the two prescribed standardised basis risk scenarios defined by the HKMA as below:

Scenario 1: All rates except for fixed and managed rates on interest rate-sensitive assets are subject to the parallel up shock; and

Scenario 2: Managed rates on interest rate-sensitive assets are subject to the parallel down shock while other rates remain unchanged.

The key modeling assumptions used by the Group in EVE and NII computation pursuant to the requirements of the HKMA include the following:

(i) For EVE computation, commercial margins and other spread components have been excluded in the cash flows used in the computation and discount rate.

(ii) The repricing maturity of non-maturity deposits is determined based on the earliest date on which their interest rates can be adjusted. Based on such assumption, the repricing maturity of all non-maturity deposits is determined to be one day.

(iii) Conditional prepayment rates have been computed for the fixed-rate retail loan products based on historical data of past two years or more. Retail term deposits are assumed not to be subject to early redemption risk given the material early withdrawal penalty imposed by the Group.

(iv) The Group measures IRRBB exposures separately for each significant currency in view that yield curves for different currencies vary from one to another. The Group's significant currency is defined as HKD, United States dollar ("USD"), Renminbi ("RMB"), Australian dollar and other currencies that account for at least 5% of total on-balance sheet interest rate-sensitive position in all currencies and that the aggregate of significant currency should account for at least 90% of total on-balance sheet interest rate-sensitive position. The interest rate correlations between different currencies are assumed to be insignificant.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Pursuant to the above methodology and assumptions, the impacts on EVE and NII for the positions of 31 December 2021 and 31 December 2020 under various scenarios are as follows:

	2021		2020	
Scenario	**EVE HK$'000**	**NII HK$'000**	EVE HK$'000	NII HK$'000
Parallel up	**(124,954)**	**69,446**	(97,128)	77,555
Parallel down	**122,172**	**(72,970)**	95,169	(79,630)
Steepener	**45,899**	**(52,906)**	35,865	(60,532)
Flattener	**(66,479)**	**65,580**	(51,436)	76,389
Short rate up	**(104,980)**	**80,462**	(79,071)	93,407
Short rate down	**100,591**	**(79,512)**	76,965	(87,575)

Under the interest rate benchmark reform, IBOR will be gradually phased out from 1 January 2022 and replaced with an alternative nearly RFR. The contracted interest receivables from these financial instruments referencing to IBOR may not be determined when IBOR discontinues to be quoted. In addressing such risks, the Group had ceased to enter into new IBOR contracts and liaised with its counterparties to modify existing IBOR contracts by using other interest rate benchmarks or agreeing the fallback interest charging mechanism when IBOR discontinued. These actions for a smooth transition had been completed in year 2021.

As at 31 December 2021, the Group's financial instruments subject to the interest rate benchmark reform comprised the following non-derivative financial assets only:

	USD LIBOR HK$ million	**GBP LIBOR HK$ million**	**JPY LIBOR HK$ million**	**Others HK$ million**
As at 31 December 2021	**639**	**21**	**–**	**–**
As at 31 December 2020	415	21	4	–

Further details can be viewed under "Interest rate risk in banking book" in the Regulatory Disclosure Statement for the position date of 31 December 2021 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

Market risk management

(a) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealings, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board of the Bank.

The Group's assets and liabilities are mainly denominated in HKD, USD and RMB. The Group has limited foreign currency risk as the Group's net foreign currency positions are small, except for net structural position of RMB denominated operating capital.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

As at 31 December 2021, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$12 million (31 December 2020: HK$12 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

Foreign currency exposures with a net position which constitutes not less than 10% of the total net position in all foreign currencies of the Bank are as follows:

	31 December 2021					
	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net (short)/ long position HK$'million	Structural assets HK$'million
RMB	**636**	**671**	**–**	**3**	**(38)**	**1,227**
Others	**6,933**	**6,539**	**537**	**929**	**2**	**–**
	7,569	**7,210**	**537**	**932**	**(36)**	**1,227**

	31 December 2020					
	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net short position HK$'million	Structural assets HK$'million
USD	5,792	5,328	252	718	(2)	–
RMB	1,208	1,223	–	–	(15)	1,191
Others	1,351	1,855	728	226	(2)	–
	8,351	8,406	980	944	(19)	1,191

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including debt securities and equities.

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of the Bank and Public Finance and are monitored on a daily basis.

The Group did not actively trade in financial instruments and in the opinion of the Directors, the price risk related to trading activities to which the Group was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy defines the credit extension and measurement criteria, credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the respective Boards or dedicated committees). The Group's loan exposures are concentrated in purchase of properties, property investment, transportation and consumer financing segment in Hong Kong; and such lendings are monitored and controlled within the approved concentration limits of the Bank and Public Finance. Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, taking of collateral, the capital adequacy treatment, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those of the loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by Internal Audit Departments of the Bank and Public Finance to evaluate the effectiveness of credit reviews, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

Compliance Departments of the Bank and Public Finance conduct compliance tests at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

Credit Committees of the Bank and Public Finance monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions and management reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

Credit Committees of the Bank and Public Finance also monitor the quality of past due or impaired financial assets by internal grading comprising "substandard", "doubtful" and "loss" accounts through meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

RMCs of the Bank and Public Finance are responsible for reviewing and assessing the adequacy of risk management framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committees also review credit risk management policies and credit risk tolerance limits. The RMC of the Bank is assisted by CRMC for discharging its responsibilities on credit risk management issues.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

The "Neither past due nor impaired loans and advances and receivables" are shown in note 17 to the financial statements.

Loans and advances and receivables that were neither past due nor impaired were related to a large number of diversified customers for whom there was no recent history of default.

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2021 **HK$'000**	2020 HK$'000
Credit related contingent liabilities	**38,614**	51,602
Loan commitments and other credit related commitments	**2,334,057**	2,456,287

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Boards of the Bank and Public Finance have established a liquidity risk management framework which incorporates liquidity risk tolerance, management oversight on liquidity risk, liquidity risk and funding strategy, risk related metrics and tools for liquidity risk management, internal liquidity risk pricing, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to (i) specify the roles and responsibilities of relevant parties on liquidity risk management, (ii) identify, measure and control liquidity risk exposures with proper implementation of funding strategies, (iii) effectively report significant risk related matters for management oversight, and (iv) manage the liquidity profile within risk tolerance. The liquidity risk management framework is cascaded to all business lines to ensure a consistent liquidity risk strategy, policies and practices across the Group. Liquidity risk related policies are reviewed by Senior Management and dedicated committees, and significant changes in such policies are approved by the Boards of the Bank and Public Finance or committees delegated by the respective Boards.

ALCOs of the Bank and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with.

Treasury Department of the Bank and a dedicated department of Public Finance are responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the respective Boards, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

RMDs of the Bank and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, concentration risk related ratios and other liquidity risk related ratios coupled with the use of cash-flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. They also carry out analysis based on risk-based management reports, summarise the data from those reports and present the key liquidity information of the Group and key business lines to the respective ALCOs on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact on the Bank or Public Finance are identified from the aforesaid management reports or market information obtained from Treasury Department and business units, a designated ALCO member will convene a meeting (involving Senior Management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of the liquidity risk performance of the Bank or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

The liquidity risk related metrics of the Bank and Public Finance include at least liquidity maintenance ratios (with internal risk tolerance higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). Systems and procedures are in place to measure and manage liquidity risk by cash-flow projections in both baseline and stressed scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilisation and genuine drawdowns of the credit facilities; customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group has established concentration limits of funding sources taking into account the respective risk profiles of the Bank and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 15% and 10% of total funding sources respectively to reduce reliance on single source of funding. Medium and long term funding is maintained at a level of at least 20% of total funding source to pursue stable funding structure.

Contingency funding plan is formulated to address liquidity needs at different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergency funding in bank-run scenario at later stage. Designated roles and responsibilities of the Crisis Management Team, departments and business units and their emergency contact information are documented clearly in contingency funding plan policy as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to Senior Management regularly and the results such as the survival period for positive cash-flow mismatches are used in contingency funding planning and determination of the required level of liquidity cushion. Based on the results of liquidity stress-testing, standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in a total amount of not less than HK$2.0 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

Apart from cash-flow projections under normal scenario to manage liquidity under different time horizons, different stress scenarios such as institution-specific stress scenario, the general market stress scenario and the combination of such scenarios with assumptions are set and reviewed by dedicated committees and approved by the respective Boards. Under institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by increased amount of rollover of banking facilities by some corporate customers or reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn banking facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or there would be fewer renewals of fixed deposits on the contractual maturity dates. In the general market stress scenario, some undrawn banking facilities are not to be honoured upon drawdown as some bank counterparties will not have sufficient liquidity to honour their obligations in market. The Group may pledge or liquidate its liquid assets such as debt securities (including but not limited to treasury bills or notes or bonds issued by eligible central governments) to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

Regulatory liquidity ratios

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rules 7 and 8D of the Banking (Liquidity) Rules, Public Bank (Hong Kong) Group (including the Bank and Public Finance) and the Bank are required to comply with the liquidity maintenance ratio requirement and core funding ratio requirement whilst Public Finance is required to comply with the liquidity maintenance ratio requirement only.

	2021	2020
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**51.8%**	52.1%
– The Bank	**50.2%**	50.9%
– Public Finance	**93.5%**	71.4%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**143.3%**	137.3%
– The Bank	**141.1%**	134.7%

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Regulatory liquidity ratios (Continued)

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA. The core funding ratio is not applicable to Public Finance.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. the Bank and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Bank and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of the Bank is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flows to and from Mainland China are subject to the supervision and approval of the SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 31 December 2021, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

	2021							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	-	-	-	-	-	-	-	-
Forward forward deposits placed	-	272,874	-	-	-	-	-	272,874
Gross foreign currency contracts	-	591,530	347,994	-	-	-	-	939,524
Credit related contingent liabilities	-	12,599	7,293	16,890	1,700	132	-	38,614
Loan commitments and other credit related commitments	2,281,444	51,413	1,200	-	-	-	-	2,334,057
Customer deposits at amortised cost	12,833,611	5,862,614	10,310,857	3,213,643	8,512	-	-	32,229,237
Deposits and balances of banks and other financial institutions at amortised cost	86,562	239,273	90,065	50,050	-	-	-	465,950
Lease liabilities	-	7,511	14,598	60,326	88,564	13,130	-	184,129
Other liabilities	-	119,208	-	-	-	-	155,655	274,863
	15,201,617	7,157,022	10,772,007	3,340,909	98,776	13,262	155,655	36,739,248

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

	2020							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	–	–	–	–	–	–	–	–
Forward forward deposits placed	–	–	–	–	–	–	–	–
Gross foreign currency contracts	–	555,008	417,012	–	–	–	–	972,020
Credit related contingent liabilities	17,663	7,072	7,293	19,422	20	132	–	51,602
Loan commitments and other credit related commitments	2,388,076	50,178	1,640	–	16,393	–	–	2,456,287
Customer deposits at amortised cost	12,211,128	6,446,568	11,951,816	3,671,145	8,197	–	–	34,288,854
Deposits and balances of banks and other financial institutions at amortised cost	51,555	270,096	100,294	–	–	–	–	421,945
Lease liabilities	–	7,627	15,108	35,388	67,515	5,525	–	131,163
Other liabilities	–	376,708	–	–	–	–	209,723	586,431
	14,668,422	7,713,257	12,493,163	3,725,955	92,125	5,657	209,723	38,908,302

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors or from external events.

The Group has an operational risk management function in place to identify, measure, monitor and control operational risk. Its operational risk management policy defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the ORMC for monitoring and control of operational risk.

Cyber security risk management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Bank. The Bank has put in place adequate resources and established cyber security risk management policy in accordance with the requirements of the HKMA's Cybersecurity Fortification Initiative and other industry standards to provide guidance on managing cyber security risk, improving cyber resilience as well as ensuring adequate cyber security awareness throughout the Bank. The Bank also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Bank's cyber security controls.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratios and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking Ordinance relating to Basel III capital standards and the Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance, respectively.

	31 December 2021	31 December 2020
Consolidated CET1 Capital Ratio	**22.6%**	21.3%
Consolidated Tier 1 Capital Ratio	**22.6%**	21.3%
Consolidated Total Capital Ratio	**23.3%**	22.1%

The above capital ratios are higher than the minimum capital ratios required by the HKMA.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	31 December 2021 HK$'000	31 December 2020 HK$'000
CET1 capital instruments	**2,854,045**	2,854,045
Retained earnings	**3,435,033**	3,190,432
Disclosed reserves	**138,800**	109,980
CET1 capital before deduction	**6,427,878**	6,154,457
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(58,471)**	(56,024)
Regulatory reserve for general banking risk	**(54,812)**	(53,280)
Goodwill	**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities	**(15,030)**	(11,787)
CET1 capital after deduction	**6,057,223**	5,791,024
Additional Tier 1 capital	**–**	–
Tier 1 capital after deductions	**6,057,223**	5,791,024
Reserve attributable to fair value gains	**26,312**	25,211
Regulatory reserve for general banking risk	**54,812**	53,280
Collective provisions	**119,146**	121,301
	173,958	174,581
Tier 2 capital	**200,270**	199,792
Capital base	**6,257,493**	5,990,816
Total risk-weighted assets	**26,825,953**	27,128,984

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio effective from 1 January 2019.

Countercyclical capital buffer (CCyB)

The CCyB ratio is an additional layer of CET1 capital which takes effect as an extension of the Basel III CCB.

As at 31 December 2021, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0%, to the private sector credit exposures in Hong Kong.

The following tables illustrate the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

		31 December 2021		
Jurisdiction (J)	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
1. Hong Kong	**1.000**	**17,375,997**		
2. Mainland China	**–**	**1,607,495**		
Total		**18,983,492**	**0.915**	**173,760**

		31 December 2020		
Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
1. Hong Kong	1.000	17,091,917		
2. Mainland China	–	1,647,094		
Total		18,739,011	0.912	170,919

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, and introduce additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total on-balance sheet and off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on Leverage Ratio.

	31 December 2021 HK$'000	31 December 2020 HK$'000
Consolidated Tier 1 Capital	**6,057,223**	5,791,024
Consolidated Exposure Measure for Leverage Ratio	**40,168,936**	41,800,473
Consolidated Leverage Ratio	**15.1%**	13.9%

The disclosure on leverage ratio has been effective since 31 March 2015 and the relevant disclosures can be viewed in the Regulatory Disclosure Statement for the position date of 31 December 2021 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

Risk exposures

	2021					
	Exposures*			Risk-weighted amounts		
Class of exposures	**Rated# HK$'000**	**Unrated HK$'000**	**Total HK$'000**	**Rated HK$'000**	**Unrated HK$'000**	**Total HK$'000**
On-balance sheet:						
Sovereign	**2,330,662**	**–**	**2,330,662**	**92,712**	**–**	**92,712**
Public sector entity	**541,421**	**–**	**541,421**	**108,284**	**–**	**108,284**
Bank	**9,970,874**	**75,847**	**10,046,721**	**3,846,816**	**16,399**	**3,863,215**
Securities firm	**–**	**224,589**	**224,589**	**–**	**112,295**	**112,295**
Corporate	**31,663**	**5,637,509**	**5,669,172**	**15,831**	**5,637,509**	**5,653,340**
Cash items	**–**	**268,903**	**268,903**	**–**	**2,700**	**2,700**
Regulatory retail	**–**	**9,688,519**	**9,688,519**	**–**	**7,266,390**	**7,266,390**
Residential mortgage loan	**–**	**8,800,231**	**8,800,231**	**–**	**3,597,057**	**3,597,057**
Other non-past due	**–**	**1,938,869**	**1,938,869**	**–**	**2,033,015**	**2,033,015**
Past due	**–**	**175,136**	**175,136**	**–**	**261,039**	**261,039**
Off-balance sheet:						
Over-the-counter ("OTC") derivative transactions – foreign exchange contracts	**934,327**	**–**	**934,327**	**3,051**	**–**	**3,051**
Other off-balance sheet items	**–**	**2,645,545**	**2,645,545**	**–**	**114,939**	**114,939**
	13,808,947	**29,455,148**	**43,264,095**	**4,066,694**	**19,041,343**	**23,108,037**

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Capital management (Continued)
Risk exposures (Continued)

	2020					
	Exposures*			Risk-weighted amounts		
Class of exposures	Rated# HK$'000	Unrated HK$'000	Total HK$'000	Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	2,404,308	–	2,404,308	83,573	–	83,573
Public sector entity	547,398	–	547,398	109,480	–	109,480
Bank	11,344,382	338,277	11,682,659	4,261,373	103,556	4,364,929
Securities firm	–	201,192	201,192	–	100,596	100,596
Corporate	–	5,119,473	5,119,473	–	5,119,473	5,119,473
Cash items	–	478,449	478,449	–	46,087	46,087
Regulatory retail	–	9,650,571	9,650,571	–	7,237,929	7,237,929
Residential mortgage loan	–	9,101,706	9,101,706	–	3,741,508	3,741,508
Other non-past due	–	2,226,322	2,226,322	–	2,320,465	2,320,465
Past due	–	158,093	158,093	–	188,189	188,189
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	995,089	–	995,089	7,140	–	7,140
Other off-balance sheet items	–	2,507,889	2,507,889	–	30,852	30,852
	15,291,177	29,781,972	45,073,149	4,461,566	18,888,655	23,350,221

The Group did not enter into OTC derivative transactions other than foreign exchange contracts with counterparties during 2021 and 2020. The Group assigns internal capital and credit limits based on the methodology stipulated in the Capital Rules. Counterparties of those OTC derivative transactions are banks and the Group does not place collaterals to such counterparties. The credit exposures attributed to such transactions were considered insignificant.

* *Principal amount or credit equivalent amount, net of individual impairment allowances before or after credit risk mitigation.*

\# *Exposures are rated by the Bank's External Credit Assessment Institutions ("ECAI"), Moody's with ECAI issue specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Capital Rules.*

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Risk exposures (Continued)

	31 December 2021 Risk-weighted exposures HK$'000	31 December 2021 Capital requirements/ charge HK$'000
Credit risk	**23,108,037**	**1,848,643**
Credit risk – credit valuation adjustment	**1,950**	**156**
Market risk	**1,197,750**	**95,820**
Operational risk	**2,550,375**	**204,030**
Deductions	**(32,159)**	
	26,825,953	

	31 December 2020 Risk-weighted exposures HK$'000	31 December 2020 Capital requirements/ charge HK$'000
Credit risk	23,350,221	1,868,018
Credit risk – credit valuation adjustment	4,163	333
Market risk	1,176,713	94,137
Operational risk	2,628,700	210,296
Deductions	(30,813)	
	27,128,984	

For the years ended 31 December 2021 and 31 December 2020, the Group has adopted the standardised approach for calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance respectively.

As at 31 December 2021 and 31 December 2020, the Group had no securitisation exposures.

Notes to Financial Statements

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The subsidiaries not included in the computation of the consolidated capital adequacy ratios of the Group are Public Bank (Nominees) Limited, Public Futures Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

Details of the Bank's subsidiaries are set out in note 1 to the financial statements.

Capital instruments

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements in the Regulatory Disclosure Statement for the position date of 31 December 2021 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Group's capital instruments;
- a detailed breakdown of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- a full reconciliation between the Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

The following is a summary of the Group's CET1 capital instruments:

	Note	**31 December 2021 HK$'000**	31 December 2020 HK$'000
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	29	**2,854,045**	2,854,045

Regulatory disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the regulatory disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 31 December 2021 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

37. STATEMENT OF FINANCIAL POSITION OF THE BANK

Information about the statement of financial position of the Bank at the end of the reporting year is as follows:

	Notes	**2021 HK$'000**	2020 HK$'000
ASSETS			
Cash and short term placements		**4,108,360**	5,981,589
Placements with banks and financial institutions maturing after one month but not more than twelve months		**2,290,111**	1,771,166
Derivative financial instruments		**1,551**	25,751
Loans and advances and receivables	37(a)	**20,532,957**	20,376,062
Equity investments at fair value through other comprehensive income		**6,804**	6,804
Held-to-collect debt securities at amortised cost		**6,439,075**	6,695,280
Investments in subsidiaries		**1,752,651**	1,752,651
Deferred tax assets		**21,558**	17,701
Property and equipment		**118,742**	124,663
Land held under finance leases		**148,456**	150,836
Right-of-use assets		**106,052**	67,525
Investment properties		**107,147**	104,519
Other assets		**134,013**	326,687
TOTAL ASSETS		**35,767,477**	37,401,234

Notes to Financial Statements

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

	Notes	2021 HK$'000	2020 HK$'000
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**1,164,433**	1,266,523
Derivative financial instruments		**6,748**	2,682
Customer deposits at amortised cost	37(b)	**27,791,195**	29,308,354
Lease liabilities		**110,108**	71,520
Current tax payable		**49,350**	39,921
Deferred tax liabilities		**17,438**	17,426
Other liabilities		**129,077**	425,867
TOTAL LIABILITIES		**29,268,349**	31,132,293
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital		**2,854,045**	2,854,045
Reserves	37(c)	**3,645,083**	3,414,896
TOTAL EQUITY		**6,499,128**	6,268,941
TOTAL EQUITY AND LIABILITIES		**35,767,477**	37,401,234

Lai Wan
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables

Information about the loans and advances and receivables of the Bank at the end of the reporting year is as follows:

	2021 HK$'000	2020 HK$'000
Loans and advances to customers	**20,530,184**	20,358,346
Trade bills	**11,989**	20,981
Loans and advances, and trade bills	**20,542,173**	20,379,327
Accrued interest	**34,830**	31,900
	20,577,003	20,411,227
Other receivables	**3,498**	1,898
Gross loans and advances and receivables	**20,580,501**	20,413,125
Less: Impairment allowances*		
– specifically assessed	**(33,364)**	(18,476)
– collectively assessed	**(14,180)**	(18,587)
	(47,544)	(37,063)
Loans and advances and receivables	**20,532,957**	20,376,062

Over 90% (31 December 2020: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2020: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

* *The balances also include the impairment allowances of HK$13,000 and HK$6,000 on off-balance sheet credit exposures as at 31 December 2021 and 31 December 2020 respectively.*

Notes to Financial Statements

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables (Continued)

Loans and advances and receivables are summarised as follows:

	2021 HK$'000	2020 HK$'000
Neither past due nor impaired loans and advances and receivables	**19,996,652**	19,885,455
Past due but not impaired loans and advances and receivables	**397,643**	400,468
Credit impaired loans and advances	**172,793**	118,409
Credit impaired receivables	**13,413**	8,793
Gross loans and advances and receivables	**20,580,501**	20,413,125

About 77% (31 December 2020: about 77%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

(i) a) Ageing analysis of overdue and impaired loans and advances

	2021		2020	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**23,727**	**0.12**	24,684	0.12
One year or less but over six months	**19,902**	**0.10**	38,507	0.19
Over one year	**118,045**	**0.57**	49,297	0.24
Loans and advances overdue for more than three months	**161,674**	**0.79**	112,488	0.55
Rescheduled loans and advances overdue for three months or less	**3,620**	**0.02**	3,659	0.02
Impaired loans and advances overdue for three months or less	**7,499**	**0.03**	2,262	0.01
Total overdue and impaired loans and advances	**172,793**	**0.84**	118,409	0.58

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables (Continued)

(i) b) Ageing analysis of overdue and impaired trade bills, accrued interest and other receivables

	2021 **HK$'000**	2020 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**471**	459
One year or less but over six months	**1,084**	1,967
Over one year	**11,792**	6,338
Trade bills, accrued interest and other receivables overdue for more than three months	**13,347**	8,764
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**66**	29
Total overdue and impaired trade bills, accrued interest and other receivables	**13,413**	8,793

Impaired loans and advances and receivables are individually determined to be impaired after considering the overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

Notes to Financial Statements

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables (Continued)

(ii) Geographical analysis of overdue and impaired loans and advances and receivables, and impairment allowances

a) Analysis of overdue loans and advances and receivables

	2021			2020		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Loans and advances and receivables overdue for more than three months	**61,799**	**113,222**	**175,021**	47,540	73,712	121,252
Impairment allowances specifically assessed	**18,787**	**12,207**	**30,994**	8,414	7,995	16,409
Current market value and fair value of collateral			**254,856**			184,775

b) Analysis of impaired loans and advances and receivables

	2021			2020		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Impaired loans and advances and receivables	**71,348**	**114,858**	**186,206**	53,490	73,712	127,202
Impairment allowances specifically assessed	**21,157**	**12,207**	**33,364**	10,481	7,995	18,476
Current market value and fair value of collateral			**273,681**			192,461

Over 90% (31 December 2020: over 90%) of the Bank's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables (Continued)

(iii) The value of collateral held in respect of the overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

	2021 HK$'000	2020 HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**254,856**	184,775
Covered portion of overdue loans and advances	**144,413**	105,830
Uncovered portion of overdue loans and advances	**17,261**	6,658

The assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Bank's right to repossess the asset is legally enforceable without impediment.

– The Bank is able to secure control over the asset if necessary.

The main types of guarantors for credit risk mitigation are as follows:

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(iv) Repossessed assets

As at 31 December 2021, the total value of repossessed assets of the Bank amounted to HK$34,145,000 (31 December 2020: HK$19,890,000).

Notes to Financial Statements

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(a) Loans and advances and receivables (Continued)

(v) Past due but not impaired loans and advances and receivables

	2021 Gross amount HK$'000	2021 Percentage of total loans and advances %	2020 Gross amount HK$'000	2020 Percentage of total loans and advances %
Loans and advances overdue for three months or less	**394,600**	**1.92**	397,512	1.95
Trade bills, accrued interest and other receivables overdue for three months or less	**3,043**		2,956	

(b) Customer deposits at amortised cost

The information of the composition of customer deposits of the Bank is as follows:

	2021 HK$'000	2020 HK$'000
Demand deposits and current accounts	**4,958,502**	4,787,126
Savings deposits	**8,114,462**	7,617,851
Time, call and notice deposits	**14,718,231**	16,903,377
	27,791,195	29,308,354

37. STATEMENT OF FINANCIAL POSITION OF THE BANK (Continued)

(c) Reserves

Information on the movement of the reserves of the Bank during the reporting year is as follows:

	Property revaluation reserve HK$'000	Capital reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2020	24,101	3,660	262,367	2,904,500	(2,407)	3,192,221
Profit for the year	–	–	–	328,706	–	328,706
Other comprehensive income	(4,783)	–	–	–	55,446	50,663
Transfer from regulatory reserve to retained profits	–	–	(144,407)	144,407	–	–
Dividends paid in respect of previous year	–	–	–	(90,718)	–	(90,718)
Dividends paid in respect of current year	–	–	–	(65,976)	–	(65,976)
As at 31 December 2020 and 1 January 2021	**19,318**	**3,660**	**117,960**	**3,220,919**	**53,039**	**3,414,896**
Profit for the year	**–**	**–**	**–**	**413,597**	**–**	**413,597**
Other comprehensive income	**–**	**–**	**–**	**–**	**27,289**	**27,289**
Transfer from retained profits to regulatory reserve	**–**	**–**	**5,505**	**(5,505)**	**–**	**–**
Dividends paid in respect of previous year	**–**	**–**	**–**	**(110,424)**	**–**	**(110,424)**
Dividends paid in respect of current year	**–**	**–**	**–**	**(100,275)**	**–**	**(100,275)**
As at 31 December 2021	**19,318**	**3,660**	**123,465**	**3,418,312**	**80,328**	**3,645,083**

\# *The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guidelines.*

38. KEY ELEMENTS OF DISCLOSURE POLICY

The Disclosure Policy of the Bank sets out the approach used by the Bank to (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs including its profit and loss and its financial resources (including capital/liquidity resources); and (ii) describe its own risk profile as required by the Banking (Disclosure) Rules. Further details of key elements of the Disclosure Policy will be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 19 January 2022.

Supplementary Financial Information (Unaudited)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

Gross and impaired loans and advances to customers, impairment allowances, impaired loans and advances written off and collateral are analysed by industry sectors pursuant to the HKMA's guidelines as follows:

Group	31 December 2021								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	605,930	205	-	97	-	595,017	98.2	-	-
Building and construction, property development and investment									
Property development	120,322	12	-	12	-	120,322	100.0	-	-
Property investment	5,078,108	508	-	1	-	5,078,108	100.0	-	-
Civil engineering works	166,112	130	-	50	-	78,719	47.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	17,197	2	-	-	-	17,188	99.9	-	-
Information technology	883	-	-	-	-	883	100.0	-	-
Wholesale and retail trade	265,877	622	-	1,342	940	227,029	85.4	-	-
Transport and transport equipment	4,926,546	11,035	20,103	11,104	-	4,557,222	92.5	30,852	27,230
Hotels, boarding houses and catering	71,562	7	-	-	-	71,562	100.0	-	-
Financial concerns	91,917	9	-	-	-	91,404	99.4	-	-
Stockbrokers									
Margin lending	110,555	11	-	8	-	109,663	99.2	-	-
Others	114,000	11	-	-	-	114,000	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	11,255	1	-	-	-	11,255	100.0	-	-
Others	565,080	58	-	2	-	565,080	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	21,659	2	-	-	-	21,659	100.0	-	-
Loans for the purchase of other residential properties	7,327,973	729	4	25	-	7,327,973	100.0	40,514	34,938
Loans for credit card advances	-	-	-	-	38	-	-	-	-
Loans for other business purposes	6,281	1	-	-	-	6,281	100.0	-	-
Loans for other private purposes	3,481,121	102,213	32,616	250,794	197,686	186,167	5.3	58,667	30,000
Trade finance	605,806	126	-	20	-	595,836	98.4	-	-
Other loans and advances	79,714	35	-	-	-	77,697	97.5	-	-
Sub-total	23,667,898	115,717	52,723	263,455	198,664	19,853,065	83.9	130,033	92,168
Loans and advances for use outside Hong Kong	2,086,639	770	10,901	4,672	712	2,058,651	98.7	104,348	102,719
Total loans and advances (excluding trade bills and other receivables)	25,754,537	116,487	63,624	268,127	199,376	21,911,716	85.1	234,381	194,887

Supplementary Financial Information (Unaudited)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Bank	31 December 2021								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	596,507	60	-	-	-	595,017	99.8	-	-
Building and construction, property development and investment									
Property development	120,322	12	-	12	-	120,322	100.0	-	-
Property investment	5,034,471	503	-	-	-	5,034,471	100.0	-	-
Civil engineering works	158,718	16	-	-	-	78,719	49.6	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	17,197	2	-	-	-	17,188	99.9	-	-
Information technology	883	-	-	-	-	883	100.0	-	-
Wholesale and retail trade	226,636	23	-	4	-	226,490	99.9	-	-
Transport and transport equipment	4,287,145	10,832	20,103	11,016	-	3,918,593	91.4	30,852	27,230
Hotels, boarding houses and catering	71,562	7	-	-	-	71,562	100.0	-	-
Financial concerns	91,917	9	-	-	-	91,404	99.4	-	-
Stockbrokers									
Margin lending	110,555	11	-	8	-	109,663	99.2	-	-
Others	114,000	11	-	-	-	114,000	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	11,255	1	-	-	-	11,255	100.0	-	-
Others	565,080	58	-	2	-	565,080	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	21,659	2	-	-	-	21,659	100.0	-	-
Loans for the purchase of other residential properties	6,163,293	613	4	3	-	6,163,293	100.0	37,256	31,680
Loans for credit card advances	-	-	-	-	38	-	-	-	-
Loans for other business purposes	6,281	1	-	-	-	6,281	100.0	-	-
Loans for other private purposes	169,860	1,553	451	299	187	154,825	91.1	451	159
Trade finance	605,806	126	-	20	-	595,836	98.4	-	-
Other loans and advances	79,714	35	-	-	-	77,697	97.5	-	-
Sub-total	18,452,861	13,875	20,558	11,364	225	17,974,238	97.4	68,559	59,069
Loans and advances for use outside Hong Kong	2,077,323	263	10,809	3,634	-	2,058,651	99.1	104,234	102,605
Total loans and advances (excluding trade bills and other receivables)	20,530,184	14,138	31,367	14,998	225	20,032,889	97.6	172,793	161,674

Supplementary Financial Information (Unaudited)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group — 31 December 2020

	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	199,130	375	–	40	–	191,198	96.0	–	–
Building and construction, property development and investment									
Property development	–	–	–	–	–	–	–	–	–
Property investment	5,240,270	523	1	2	–	5,240,270	100.0	6,653	6,653
Civil engineering works	172,297	131	–	84	–	84,196	48.9	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	22,541	5	14	15	–	22,351	99.2	2,278	2,278
Information technology	929	–	–	–	–	929	100.0	–	–
Wholesale and retail trade	220,548	500	139	379	21	186,657	84.6	139	139
Transport and transport equipment	4,777,541	14,827	9,770	5,788	208	4,409,938	92.3	23,043	19,422
Hotels, boarding houses and catering	82,555	63	–	–	–	79,872	96.8	–	–
Financial concerns	312,061	31	–	–	–	312,061	100.0	–	–
Stockbrokers									
Margin lending	26,100	3	–	–	–	26,100	100.0	–	–
Others	175,000	18	–	–	–	95,000	54.3	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	12,520	1	–	–	–	12,520	100.0	–	–
Others	508,974	56	–	5	–	508,974	100.0	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	28,528	3	–	–	–	28,528	100.0	–	–
Loans for the purchase of other residential properties	7,459,835	744	3	40	–	7,459,835	100.0	24,777	22,654
Loans for credit card advances	1,094	30	32	39	51	–	–	32	32
Loans for other business purposes	8,048	1	–	–	–	8,048	100.0	–	–
Loans for other private purposes	3,709,520	100,300	41,482	348,261	325,359	212,032	5.7	87,199	35,100
Trade finance	620,585	106	–	–	–	609,418	98.2	–	–
Other loans and advances	77,681	50	–	–	–	75,629	97.4	–	–
Sub-total	23,655,757	117,767	51,441	354,653	325,639	19,563,556	82.7	144,121	86,278
Loans and advances for use outside Hong Kong	2,160,200	832	7,380	9,555	1,344	2,141,462	99.1	66,784	66,783
Total loans and advances (excluding trade bills and other receivables)	25,815,957	118,599	58,821	364,208	326,983	21,705,018	84.1	210,905	153,061

Supplementary Financial Information (Unaudited)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Bank	31 December 2020								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	191,266	263	–	–	–	191,198	100.0	–	–
Building and construction, property development and investment									
Property development	–	–	–	–	–	–	–	–	–
Property investment	5,200,851	519	1	1	–	5,200,851	100.0	6,653	6,653
Civil engineering works	164,308	17	–	–	–	84,196	51.2	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	22,438	4	14	15	–	22,351	99.6	2,278	2,278
Information technology	929	–	–	–	–	929	100.0	–	–
Wholesale and retail trade	186,129	19	–	–	21	185,978	99.9	–	–
Transport and transport equipment	4,139,329	14,693	9,770	5,558	43	3,772,121	91.1	23,043	19,422
Hotels, boarding houses and catering	82,555	63	–	–	–	79,872	96.8	–	–
Financial concerns	312,061	31	–	–	–	312,061	100.0	–	–
Stockbrokers									
Margin lending	26,100	3	–	–	–	26,100	100.0	–	–
Others	175,000	18	–	–	–	95,000	54.3	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	12,520	1	–	–	–	12,520	100.0	–	–
Others	508,974	56	–	5	–	508,974	100.0	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	28,528	3	–	–	–	28,528	100.0	–	–
Loans for the purchase of other residential properties	6,253,922	624	2	10	–	6,253,922	100.0	19,432	17,308
Loans for credit card advances	1,094	30	32	39	51	–	–	32	32
Loans for other business purposes	8,048	1	–	–	–	8,048	100.0	–	–
Loans for other private purposes	196,768	1,684	375	258	98	176,392	89.6	375	200
Trade finance	620,585	106	–	–	–	609,418	98.2	–	–
Other loans and advances	77,681	50	–	–	–	75,629	97.4	–	–
Sub-total	18,209,086	18,185	10,194	5,886	213	17,644,088	96.9	51,813	45,893
Loans and advances for use outside Hong Kong	2,149,260	362	7,229	7,858	–	2,141,462	99.6	66,596	66,595
Total loans and advances (excluding trade bills and other receivables)	20,358,346	18,547	17,423	13,744	213	19,785,550	97.2	118,409	112,488

Supplementary Financial Information (Unaudited)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

The advances to customers are classified by industry sectors based on the industry in which the granted loans are used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activities of the borrowers or by reference to the assets financed according to the loan documentation.

(B) INTERNATIONAL CLAIMS

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties taking into account any recognised risk transfer. In general, recognised risk transfer from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

The following tables illustrate the international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	31 December 2021				
	Banks HK$'million	**Official sector HK$'million**	**Non-bank financial institutions HK$'million**	**Non-financial private sector HK$'million**	**Total HK$'million**
1. Developed countries	**2,864**	**8**	**–**	**187**	**3,059**
2. Offshore centres,	**1,459**	**3**	**206**	**2,254**	**3,922**
of which					
– Hong Kong	**1,083**	**3**	**126**	**1,689**	**2,901**
3. Developing Asia-Pacific,	**4,311**	**103**	**–**	**2,105**	**6,519**
of which					
– China	**2,709**	**102**	**–**	**2,060**	**4,871**

	31 December 2020				
	Banks HK$'million	Official sector HK$'million	Non-bank financial institutions HK$'million	Non-financial private sector HK$'million	Total HK$'million
1. Developed countries	2,622	9	–	197	2,828
2. Offshore centres,	1,943	2	109	2,002	4,056
of which					
– Hong Kong	1,309	2	29	1,383	2,723
3. Developing Asia-Pacific,	5,252	147	–	2,345	7,744
of which					
– China	3,375	146	–	2,290	5,811

(C) MAINLAND ACTIVITIES

The following table illustrates the disclosure required to be made in respect of the Bank's Mainland China exposures to non-bank counterparties:

Types of counterparties	31 December 2021 On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**205**	**–**	**205**
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**122**	**–**	**122**
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**2**	**–**	**2**
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	**1,737**	**–**	**1,737**
Total	**2,066**	**–**	**2,066**
Total assets after provision	**35,772**		
On-balance sheet exposures as percentage of total assets	**5.78%**		

Types of counterparties	31 December 2020 On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
Central government, central government-owned entities and their subsidiaries and JVs	222	–	222
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	269	12	281
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	–	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,663	–	1,663
Total	2,158	12	2,170
Total assets after provision	37,410		
On-balance sheet exposures as percentage of total assets	5.77%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Banking (Disclosure) Rules and Completion Instructions for the HKMA Return of Mainland Activities.

Supplementary Financial Information (Unaudited)

(D) DISCLOSURE OF THE REMUNERATION SYSTEM

Nomination and Remuneration Committee

The Bank has established its Nomination and Remuneration Committee with written terms of reference in compliance with the requirements of the SPM Module CG-5 "Guideline on a Sound Remuneration System" (the "Remuneration Guideline") issued by the HKMA. The terms of reference of the Nomination and Remuneration Committee are available under "Board Committees" section in the Bank's website at www.publicbank.com.hk.

As at 31 December 2021, there were five members in the Nomination and Remuneration Committee and three of them were Independent Non-Executive Directors ("INEDs"). The Nomination and Remuneration Committee was chaired by Mr. Lim Chao Li, an INED of the Bank. The other members were Mr. Lai Wan, Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan and Mr. Tang Wing Chew.

The Nomination and Remuneration Committee meets at least once a year to review and make recommendations to the Board of the Bank on the overall remuneration policy (the "Remuneration Policy"), specific remuneration packages and compensation arrangement relating to the appointment or termination of Directors, Chief Executive, Alternate Chief Executives, Senior Management and key personnel, and for the formulation and implementation of the Remuneration Policy applicable to all employees of the Bank.

Four meetings were held in 2021. The attendance of each member in 2021 is set out below:

Name of members	Number of meetings attended in 2021	Attendance rate
Mr. Lim Chao Li, Chairman of the Committee (INED) *(Note 1)*	1/1	100%
Mr. Lai Wan	4/4	100%
Tan Sri Dato' Sri Tay Ah Lek	4/4	100%
Mr. Quah Poh Keat *(Note 2)*	4/4	100%
Mr. Lee Chin Guan (INED)	4/4	100%
Mr. Tang Wing Chew (INED)	4/4	100%

Notes:

1. *Appointed on 1 November 2021 and only one meeting was held after his appointment.*

2. *Ceased as a member on 1 November 2021, but he continued to attend meetings by invitation after cessation.*

During the year, Directors' fees, annual salary review, allocation of annual discretionary bonus, performance review of Senior Management and key personnel, training and development programmes attended by Directors, Chief Executive and Alternate Chief Executives, annual assessment of the Board, Board Committees and individual Directors, annual review of the Remuneration Policy and system in compliance with the Remuneration Guideline of the HKMA, and assessment of independence of INEDs as well as the review of various policies/manuals related to Directors and the corporate governance structure of the Bank were reviewed and noted. In addition, proposed changes to the composition of the Board and Board Committees were reviewed and recommended to the Board following the re-designation of Mr. Lai Wan from INED to Non-Executive Director on 8 June 2021. It also proposed appointment of Mr. Lim Chao Li as a new INED to the Board.

(D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Nomination and Remuneration Committee (Continued)

Remuneration of the Executive Director, Chief Executive, Alternate Chief Executives, Senior Management and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages. No individual Director or any of his associates is involved in deciding his own remuneration.

Remuneration of Directors

The scales of Directors' fees of the Bank for the years 2021 and 2020 are set out as follows:

Board of Directors	**2021 Range HK$**	2020 Range HK$
Chairman/Co-Chairman	**255,000 to 350,000**	255,000 to 310,000
Other Directors	**130,000 to 255,000**	187,500 to 255,000

No remuneration was paid to members of the Nomination and Remuneration Committee for the years 2021 and 2020 except the aforesaid Directors' fees.

Design and structure of the remuneration processes

The Board of the Bank oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Nomination and Remuneration Committee of the Bank reviews and recommends the remuneration packages of Senior Management and key personnel of the Bank in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Bank for approval.

Remuneration review is submitted to the Board of the Bank by the Nomination and Remuneration Committee for approval each year.

The Nomination and Remuneration Committee of the Bank also works closely with the Human Resources Committee, Audit Committee, RMC and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Human Resources Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Recommendations related to Heads of Internal Audit Department, Compliance Department and RMD are submitted to the Audit Committee and RMC, where applicable, for endorsement. Discussions and recommendations related to other employees at managerial level made in the meetings of Human Resources Committee are submitted to the Group Human Resources Committee of Public Bank, the ultimate holding company of the Bank, and where appropriate, to the Nomination and Remuneration Committee of the Bank for endorsement while discussions and decisions related to non-managerial employees made in the meetings are normally noted in the Board Executive Committee of the Bank.

Supplementary Financial Information (Unaudited)

(D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Bank Group

The Bank adopted the Remuneration Policy in compliance with the Remuneration Guideline. The Remuneration Policy covers the Bank (including all branches and representative offices of the Bank) and its subsidiaries which are subject to the HKMA's consolidated supervision except Public Finance, Public Financial Limited and Public Securities Limited (the "Bank Group"), which have their own remuneration policy. The Remuneration Policy was initiated by the Human Resources Committee and approved by the Board. The Human Resources Committee also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Nomination and Remuneration Committee for consideration. Having discussed and agreed upon at the Nomination and Remuneration Committee, the revisions to the Remuneration Policy will be recommended to the Board for approval. The Remuneration Policy is subject to an annual review.

The Bank's Remuneration Policy encourages employee behaviour that supports the Bank's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Bank and formulated in a way that will not encourage excessive risks taking by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Bank has considered the key risks, including market risk, credit risk, liquidity risk and operational risk, when implementing the remuneration measures, which are closely monitored by various management committees and working groups. The Bank considers and reviews the audit reports and various kinds of performance reports to take account of these risks in the remuneration process. Audit reports cover information on asset quality, credit risk management and operational risk management whilst performance reports state various kinds of business performance indicators such as delinquent rate, net impairment ratio, customer deposit, business growth, etc., which are useful for identification of current and future risks. The employees' performances in controlling these current and future risks are linked with their remuneration rewards. The Board will take the overall performance of the Bank Group, risk management, market trends, and other non-financial measures when deciding the performance bonus pool. This will be adjusted as and when the Bank considers appropriate. There is no change of remuneration measures over the past year.

Basically, the remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of Senior Management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Remuneration Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

(D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Bank Group (Continued)

Subject to the decision of the Nomination and Remuneration Committee in accordance with the internal guidelines, the Bank Group may apply "malus" and/or "clawback" to deferred remuneration when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank Group; or there has been a significant downward restatement of the financial performance of the Bank Group; or the employment of the employee is terminated.

The award of variable remuneration to the Senior Management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Nomination and Remuneration Committee at least annually and subject to change when necessary.

The remuneration of the employees within the risk control function, including those performing risk management, accounts, audit and compliance functions, etc., is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

The Bank uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies; adherence to legal, regulatory and ethical standards; adherence to corporate culture and values; customer satisfaction; and effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

Annual review of remuneration system and policy

An annual review of the remuneration system and the Remuneration Policy of the Bank Group was conducted by the Nomination and Remuneration Committee at the end of 2021. Changes were made to the Remuneration Policy to comply with the new requirements under the revised Remuneration Guideline issued by the HKMA on 29 July 2021. The review concludes that the remuneration system and the Remuneration Policy are consistent with the principles set out in the Remuneration Guideline.

Supplementary Financial Information (Unaudited)

(D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of Senior Management and key personnel

The aggregate quantitative information on remuneration for the Bank's Senior Management (including the Executive Director who also held the position of Chief Executive) and key personnel is set out below.

(i) The amount of remuneration for the financial years 2021 and 2020, split into fixed and variable remuneration, is set out below:

Remuneration for Senior Management*:

	2021 (7 employees)		2020 (7 employees)	
	Non-deferred HK$	**Deferred HK$**	Non-deferred HK$	Deferred HK$
Fixed remuneration				
Cash	**9,859,882**	**–**	8,503,155	–
Variable remuneration				
Cash	**3,928,180**	**–**	3,532,184	–

* *Senior Management comprises personnel who received remuneration during the year in respect of his/her position as Chief Executive/Alternate Chief Executive/Financial Controller/Head of Treasury/Head of Compliance△/Head of Risk Management△/Head of Internal Audit△*

△ *Re-classified from "Key Personnel" to "Senior Management" according to the Revised Remuneration Policy in 2021*

Remuneration for key personnel#:

	2021 (8 employees)		2020 (11 employees)	
	Non-deferred HK$	**Deferred HK$**	Non-deferred HK$	Deferred HK$
Fixed remuneration				
Cash	**6,461,975**	**–**	9,811,534	–
Variable remuneration				
Cash	**1,925,393**	**–**	2,735,933	–

\# *Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risks or the taking on material exposures on behalf of the Bank Group and/or other key personnel who plays a pivotal role within the Bank*

(ii) No variable remuneration in shares or share-linked instruments was granted during the financial years 2021 and 2020.

(D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of Senior Management and key personnel (Continued)

(iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2021 and 2020.

(iv) No Senior Management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2021 and 2020.

Further remuneration disclosures were shown in the regulatory disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 31 December 2021 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2022.

(E) CORPORATE GOVERNANCE

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the SPM Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions". To accomplish this, the Bank exercises corporate governance through the following Committees:

1. Board Executive Committee

Board Executive Committee consists of Executive and Non-Executive Directors and is responsible for the management of the businesses of the Bank in all aspects and the implementation of strategic business plans and policies approved and formulated by the Board. The minutes of Board Executive Committee meetings are tabled to the Board for noting. The present members comprise Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman of Board Executive Committee), Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam, Mr. Tan Yoke Kong and Mr. Chong Yam Kiang.

2. Risk Management Committee

RMC is responsible for overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management, operational risk management, cyber security risk management and compliance risk management. It reviews and approves major risk related policies and major risk tolerance limits and reviews and assesses the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively. It also conducts review of the compliance functions to ensure adequate resources and independence of Compliance Department. The minutes of RMC meetings are tabled to the Board for noting and further action, where appropriate. The present members comprise Mr. Lee Chin Guan (Chairman of RMC), Mr. Lai Wan, Mr. Tang Wing Chew, Dato' Chang Kat Kiam and Mr. Lim Chao Li.

3. Audit Committee

Audit Committee reviews internal control issues identified by Internal Audit Department, external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. It also conducts review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of Internal Audit Department. The minutes of Audit Committee meetings are tabled to the Board for noting and further action, where appropriate. The Chief Executive and Head of Internal Audit normally attend the meetings. The members of Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The present members comprise Mr. Tang Wing Chew (Chairman of Audit Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Lai Wan, Mr. Lee Chin Guan and Mr. Lim Chao Li.

Supplementary Financial Information (Unaudited)

(E) CORPORATE GOVERNANCE (Continued)

4. Nomination and Remuneration Committee

Nomination and Remuneration Committee is responsible for reviewing and recommending to the Board the overall Remuneration Policy and remuneration packages of the Executive Directors, Chief Executive, Alternate Chief Executives, Senior Management and key personnel, and the Remuneration Policy applicable to all employees of the Bank; to review the structure, size and composition of the Board and make recommendations of any proposed changes to the Board to complement their corporate strategy; to make recommendations on the appointment, nomination policy, succession planning and any related matters for Directors, Chief Executive, Alternate Chief Executives and Senior Management. The minutes of Nomination and Remuneration Committee meetings are tabled to the Board for noting. The members of Nomination and Remuneration Committee comprise Non-Executive Directors appointed by the Board, and the majority of them shall be Independent Non-Executive Directors, and shall consist of not less than three members. The present members comprise Mr. Lim Chao Li (Chairman of Nomination and Remuneration Committee), Mr. Lai Wan, Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan and Mr. Tang Wing Chew.

5. Bank Culture Committee

Bank Culture Committee is established by the Board to develop and promote a sound corporate culture and behavioural standards that promote prudent risk-taking and fair treatment of customers within the Bank and its subsidiaries. The minutes of Bank Culture Committee meetings are tabled to the Board for noting. The present members comprise Mr. Lim Chao Li (Chairman of Bank Culture Committee), Mr. Lai Wan, Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Dato' Chang Kat Kiam.

6. Management Committee

Management Committee is established by the Board to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. The members of the Committee comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Treasury, Head of Branch Banking, Head of Credit, Head of Commercial Banking & China Operation and Head of Hire Purchase & Leasing.

7. Credit Committee

Credit Committee is responsible for making decisions on applications for all types of credit facilities within its limits set out in the Credit Policy and in particular, monitoring the lending portfolio for managing the overall credit risk of the Bank. The members of the Committee comprise the Chief Executive, General Manager & Alternate Chief Executive, Head of Branch Banking, Head of Commercial Banking & China Operation, Head of Credit, Head of Credit Analysis and Credit Manager.

8. Assets and Liabilities Management Committee

ALCO reviews and assesses the risk profile and consolidated statement of financial position structure of the Bank, sets out the objectives for the assets and liabilities management function and implements relevant risk management strategy. The Committee monitors and manages the aforesaid matters within a framework of approved policies and limits, and reports to the RMC. The members of ALCO comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Treasury and Head of Risk Management.

(E) CORPORATE GOVERNANCE (Continued)

9. Human Resources Committee

Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration package of all staff. The members of the Committee comprise the Chief Executive, Alternate Chief Executives and Head of Human Resources.

10. Information Technology Steering Committee

Information Technology Steering Committee is responsible for establishing policies and strategies for the computerisation of the Bank, recommending to the Board on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The members of the Committee comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Branch Banking, Head of Internal Audit, Head of Operations, Head of Commercial Banking & China Operation and Acting Head of Information Technology.

11. Finance Committee

Finance Committee assists the Board in the financial planning and budgeting process of the business of the Bank and the review of the business performance, medium-term financial strategic business plan, statutory and half-year accounts. The members of the Committee comprise the Chief Executive, General Manager & Alternate Chief Executive, Financial Controller, Head of Branch Banking and Head of Credit.

12. Operational Risk Management Committee

ORMC is responsible for the implementation of the operational risk management framework approved by the Board, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. The members of ORMC comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Risk Management, Head of Compliance, Head of Operations, Head of Commercial Banking & China Operation and Acting Head of Information Technology.

13. Anti-Money Laundering and Counter-Terrorist Financing (AML) and Compliance Committee

AML and Compliance Committee is responsible for overseeing Compliance Department to carry out compliance functions, including prevention of money laundering and terrorist financing, providing guidance on compliance related issues raised by Compliance Department or other units of the Bank and reporting material compliance related issues to the RMC, other relevant committees, Senior Management and Heads of relevant departments/units. The members of the Committee comprise the Chief Executive, Alternate Chief Executives, Deputy General Manager and above, Financial Controller, Head of Risk Management and Head of Compliance.

14. Credit Risk Management Committee

CRMC is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of the existing and new products. The Committee reviews credit risk management policies and credit risk tolerable limits, and reports to RMC. The members of CRMC comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Treasury and Head of Risk Management.

Supplementary Financial Information (Unaudited)

(E) CORPORATE GOVERNANCE (Continued)

15. Business Strategy Steering Committee

Business Strategy Steering Committee is responsible for establishing effective business strategies to meet corporate goals and objectives taking into account operating conditions in the market and formulating strategic business plans to achieve growth and return, efficiency and competitive advantage in the financial industry. The members of the Committee comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Treasury, Head of Branch Banking, Head of Hire Purchase & Leasing, Head of Commercial Banking & China Operation, Manager – Securities & Wealth Product Management, District Managers, Shenzhen Branch Manager, and Manager – Marketing & Product Development.

16. Business Continuity Committee

Business Continuity Committee is responsible for managing the overall formulation, implementation and maintenance of the Business Resumption Continuity Plan ("BRCP") of the Bank. It plans for BRCP testing at least once a year and ensures the necessary measures for BRCP are taken for meeting the regulatory and business requirements. The members of the Committee comprise the Chief Executive, Alternate Chief Executives, Financial Controller, Head of Branch Banking, Head of Commercial Banking & China Operation, Head of Credit, Head of Human Resources, Head of Operations, Head of General Affairs and Acting Head of Information Technology.

17. Fintech Sub-Committee

Fintech Sub-Committee is responsible for formulating short-term and long-term Fintech plans, deliberating on the budgets to be allocated thereon and reviewing the adequacy of resources in terms of time, personnel, training and support functions. It formulates key Fintech policies and monitors the effectiveness in implementing the key Fintech policies and projects. The members of the Committee comprise the Chief Executive, General Manager & Alternate Chief Executive, Financial Controller, Head of Training & Development, Head of Operations, Head of Branch Banking, Manager of Marketing & Product Development, Head of Digital Transformation, Project Manager of Digital Transformation and Acting Head of Information Technology.