2021 ANNUAL REPORT

創興銀行有限公司
Chong Hing Bank Limited

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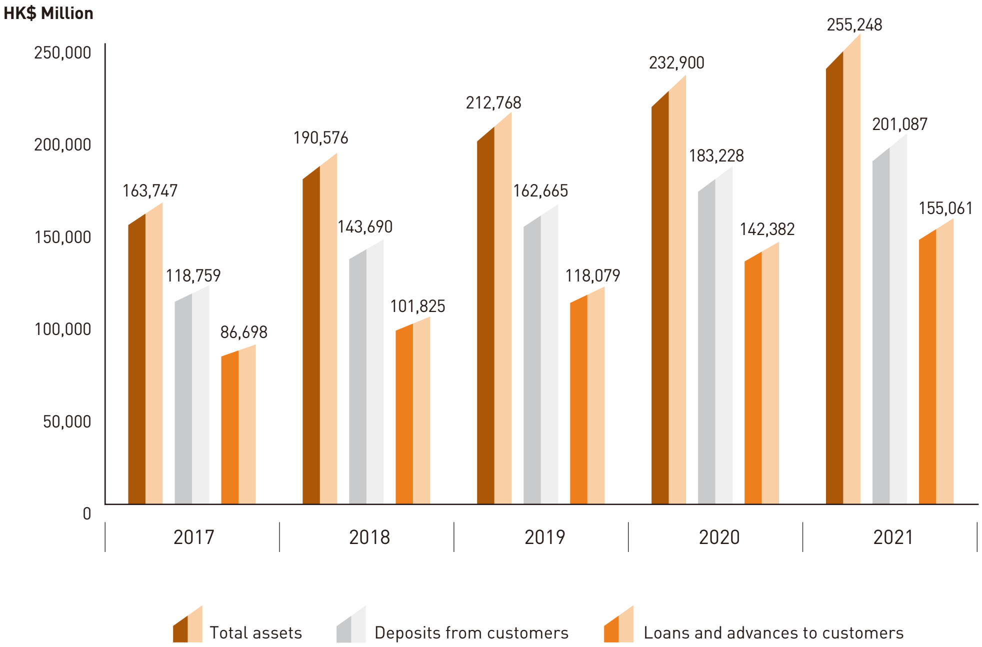
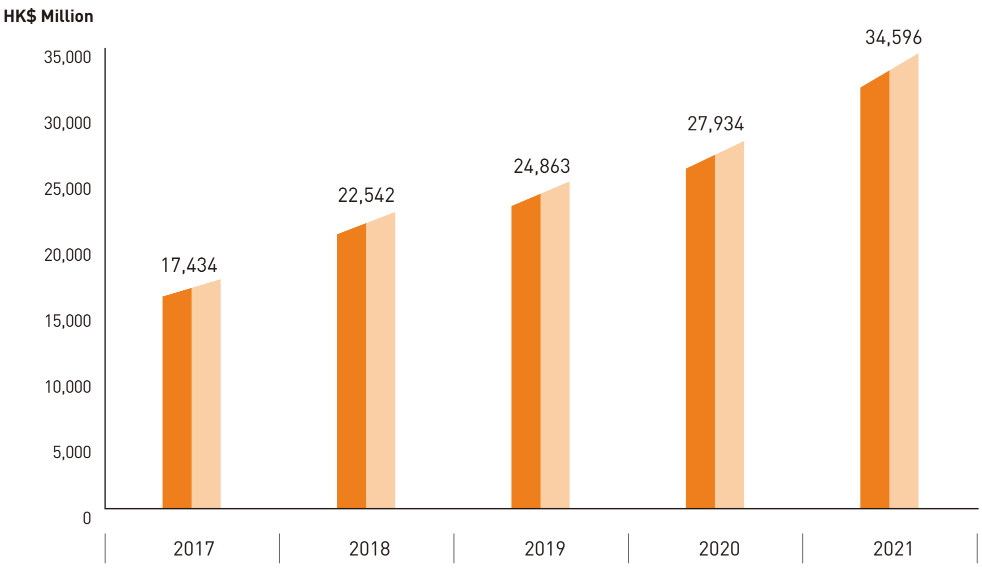
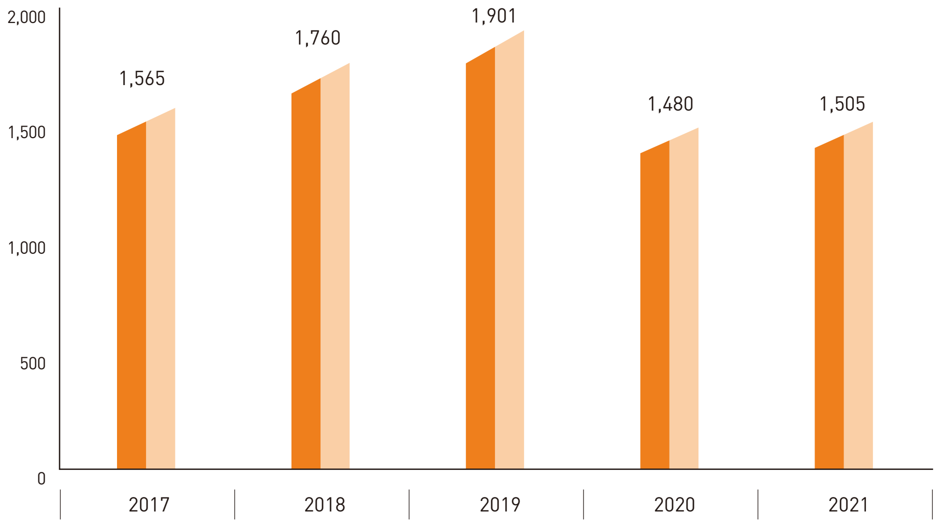


TOTAL EQUITY



PROFIT ATTRIBUTABLE TO EQUITY OWNERS



FINANCIAL SUMMARY

	2017 HK$ Million	2018 HK$ Million	2019 HK$ Million	2020 HK$ Million	2021 HK$ Million
Loans and advances to customers	86,698	101,825	118,079	142,382	155,061
Deposits from customers	118,759	143,690	162,665	183,228	201,087
Total assets	163,747	190,576	212,768	232,900	255,248
Total liabilities	146,313	168,033	187,905	204,965	220,652
Total equity	17,434	22,542	24,863	27,934	34,596
Profit attributable to equity owners	1,565	1,760	1,901	1,480	1,505

CORPORATE INFORMATION

as of 31 March 2022

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr ZONG Jianxin *(Deputy Chairman and Chief Executive)*
Mr LAU Wai Man *(Deputy Chief Executive)*

NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing *(Chairman)*
Mr LI Feng
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

BOARD COMMITTEES

AUDIT COMMITTEE

Mr CHENG Yuk Wo *(Chairman)*
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

CONNECTED PARTY TRANSACTIONS COMMITTEE

Mr CHENG Yuk Wo *(Chairman)*
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr CHAN Kam Ki Vincent
Mr WOO Pak Kin Clement

DIGITALIZATION STRATEGY COMMITTEE (FORMERLY KNOWN AS INFORMATION TECHNOLOGY STRATEGY COMMITTEE)

Mr LEE Ka Lun *(Chairman)*
Mr LI Feng
Mr ZONG Jianxin
Mr LAU Wai Man

NOMINATION AND REMUNERATION COMMITTEE

Mr YU Lup Fat Joseph *(Chairman)*
Mr ZHANG Zhaoxing
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr CHENG Yuk Wo
Mr LEE Ka Lun

RISK COMMITTEE

Mr LEE Ka Lun *(Chairman)*
Mr LI Feng
Mr CHENG Yuk Wo
Mr YU Lup Fat Joseph

SENIOR MANAGEMENT

Mr TANG Xianqing *(Deputy Chief Executive)*
Mr CHIU Tak Wah Edward *(Chief Operating Officer and Alternate Chief Executive)*
Mr CHAN Kam Ki Vincent *(Chief Financial Officer)*
Mr WOO Pak Kin Clement *(Chief Risk Officer)*
Ms CHAN Yun Ling *(Head of Treasury and Markets)*
Mr SIN Tat Wo *(Head of Corporate Banking Division)*
Ms LAM Pik Ha Eliza *(Head of Financial Institutions Division)*
Ms NG Sau Wai Sylvia *(Head of Personal Banking Division)*
Ms CHENG Wing Yi *(Head of Human Resources Division)*
Ms LAI Wing Nga *(Company Secretary)*

CORPORATE INFORMATION

as of 31 March 2022

Chong Hing Bank's website access code

REGISTERED OFFICE

Address : Ground Floor, Chong Hing Bank Centre
24 Des Voeux Road Central, Hong Kong
Telephone : (852) 3768 1111
Facsimile : (852) 3768 1888
SWIFT BIC : LCHB HK HH
Website : www.chbank.com
E-mail : info@chbank.com

PRINCIPAL LEGAL ADVISERS

Deacons
Mayer Brown JSM

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) US$382,903,000 3.876 per cent. tier 2 subordinated notes due 2027, (2) US$400,000,000 5.70 per cent. undated non-cumulative subordinated additional tier 1 capital securities and (3) US$300,000,000 5.50 per cent. undated non-cumulative subordinated additional tier 1 capital securities are (1) 05249 (CH BANK N2707), (2) 04419 (CH BANK NCSCS) and (3) 40329 (CH BANK NCSCSB) respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

BOARD OF DIRECTORS

Front (from left to right): CHOW Cheuk Yu Alfred, LAU Wai Man, ZHANG Zhaoxing, ZONG Jianxin, YU Lup Fat Joseph
Back (from left to right): CHEN Jing, LI Feng, CHENG Yuk Wo, LEE Ka Lun

EXECUTIVE DIRECTORS

Mr ZONG Jianxin

aged 55, was appointed Deputy Managing Director and Head of Mainland Business Division of the Bank in May 2015 and ceased to act as Deputy Managing Director in May 2018. Mr Zong has been appointed an Executive Director, the Chief Executive and the Deputy Chairman of the Bank since September 2015, April 2017 and May 2018, respectively. He also acted as Alternate Chief Executive of the Bank from May 2016 to April 2017. Mr Zong has been appointed an Executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) ("Yuexiu Financial Holdings") since November 2015 and the Deputy Chairman and the Chief Executive of Yuexiu Financial Holdings since May 2018. He acted as Alternate Chief Executive of Yuexiu Financial Holdings from June 2016 to May 2018. He has been a Director and the Chief Executive of Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since August 2017. Mr Zong has more than 20 years of banking experience, specialising in corporate banking, international business and investment banking business. He was an Executive Director and Alternate Chief Executive of Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") from October 2010 to May 2015, and was also a Director of various subsidiaries of ICBC Asia from December 2010 to May 2015. Mr Zong held various positions in Industrial and Commercial Bank of China Limited, Shenzhen Branch from October 1999 to December 2009, with his last position as the Vice President. Mr Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

Mr LAU Wai Man

aged 63, has been appointed an Executive Director of the Bank since August 2001 and was appointed as Deputy Managing Director in May 2016, and such title was changed to Deputy Chief Executive of the Bank in May 2018. Mr Lau also acts as Alternate Chief Executive of the Bank and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank). He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since February 2014 and appointed as Deputy Chief Executive since May 2018. Mr Lau is also a Director of various subsidiaries of the Bank. Mr Lau holds a Bachelor of Law degree and a Master of Business Administration degree. He is a Vice President of the Council of the Hong Kong Institute of Bankers, a Certified Financial Planner^{CM}, a member of the Hong Kong Institute of Certified Public Accountants and an Honorary Certified Banker. He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988, and was Deputy Chief Executive Officer from July 2007 to March 2013 and Chief Executive Officer from March 2013 to May 2016. Before joining the Bank, he had worked for an international bank and a global accounting firm.

NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing

aged 58, has been appointed the Chairman and a Non-executive Director of the Bank since February 2014. Mr Zhang is the Chairman of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*) and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"). Mr Zhang holds an Executive Master of Business Administration degree awarded by Huazhong University of Science and Technology and possesses the qualification of senior accountant in China. He has extensive experience in the financial management, industrial operation, capital operation and corporate culture development of large enterprises. Prior to joining YX Enterprises in 2008, Mr Zhang was the Director and General Manager of Guangzhou Radio Group Co., Ltd., Chairman and General Manager of Haihua Electronics Enterprise (China) Corporation, Chairman of Guangzhou Guangdian Real Estate Development Co., Ltd. and a Director of GRG Banking Equipment Co., Ltd. (Stock Code: 002152), a company listed on the Shenzhen Stock Exchange. Mr Zhang is a deputy to the 12th National People's Congress of the People's Republic of China.

Mr LI Feng

aged 53, has been a Non-executive Director of the Bank since February 2014. Mr Li is the Chief Capital Officer of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*) and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"), mainly responsible for formulating and implementing major capital management plans, organizing industrial development and financing coordination, optimizing and deepening the customer resources management, promoting the update of digital transformation, etc, of the Yue Xiu Group. Mr Li is the press spokesperson of the Yue Xiu Group. Mr Li is also the Chairman and a Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank), the Chairman of Yue Xiu Securities Holdings Limited, an Executive Director of Yuexiu Property Company Limited (a company listed on the Stock Exchange, Stock Code: 00123), the Chairman and an Executive Director of Yuexiu Transport Infrastructure Limited (a company listed on the Stock Exchange, Stock Code: 01052), a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Stock Exchange), a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (廣州越秀金融控股集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, Stock Code: 000987) and a Director of Guangzhou City Construction & Development Co., Ltd. Mr Li graduated from the South China University of Technology majoring in Naval

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

Architecture, and obtained a Master of Business Administration degree from Jinan University. He holds the qualification of a Senior Engineer in China. Mr Li is also the President of the Association of Guangzhou Belt and Road Investment Enterprises, a member of Guangzhou Housing Provident Fund Management Committee, a director of the Guangzhou People's Association for Friendship with Foreign Countries, the Vice-president of the Listed Companies Council of the Hong Kong Chinese Enterprises Association, and a board member of the Governing Board of The Hong Kong University of Science and Technology (Guangzhou) and a member of the Risk Management Committee of China Evergrande Group (a company listed on the Stock Exchange, Stock Code: 03333). Mr Li joined YX Enterprises in December 2001, he is familiar with business of listed companies and the operations of capital markets and has extensive practical experience in capital operations.

***Mr CHOW Cheuk Yu Alfred** BBS, JP*

aged 71, has been a Board member of the Bank since February 2003, and was re-designated from Independent Non-executive Director to Non-executive Director of the Bank in September 2004. Mr Chow has been a Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since February 2014. He is also the Chairman and a Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank). He graduated from The University of Hong Kong with a Bachelor of Laws degree and a Master of Social Sciences (Public Administration) degree. With 17 years of working experience in the civil service and over 40 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors in Hong Kong. He is also a China-Appointed Attesting Officer. Mr Chow is a director and legal advisor of Hong Kong Chiu Chow Chamber of Commerce Limited and Federation of HK Chiu Chow Community Organizations Limited; and legal advisor to Jao Tsung-I Petite Ecole Fan Club and various community bodies. He was the Chairman of the HKSAR Passports Appeal Board and Chief Adjudicator of the Registration of Persons Tribunal.

Ms CHEN Jing

aged 50, has been a Non-executive Director of the Bank since August 2018. Ms Chen is the Chief Financial Officer and General Manager of the Finance Department of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*) ("Guangzhou Yue Xiu Holdings") and Yue Xiu Enterprises (Holdings) Limited. Ms Chen is an Executive Director and Chief Financial Officer of Yuexiu Property Company Limited (Stock Code: 00123) and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052). She is also a Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank).

Ms Chen graduated from Xi'an Jiaotong University with a major in auditing, and holds a Master of Business Administration Degree from the School of Management and Economics of Beijing Institute of Technology and the qualifications of auditor and certified internal auditor. Ms Chen joined Guangzhou Yue Xiu Holdings in July 2004 and was the Deputy General Manager of the Supervisory (Audit) Office and the General Manager of the Audit Department. Ms Chen has participated in building systems to monitor the major risks and finance of Guangzhou Yue Xiu Holdings. Ms Chen is well versed in risk management and internal control management, financial management of listed companies and has extensive experience in establishing a sound system for risk management and internal control, financial management for enterprises. Prior to joining Guangzhou Yue Xiu Holdings, Ms Chen worked in the School of Business of Hubei University and Hisense Kelon Electrical Holdings Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo

aged 61, has been an Independent Non-executive Director of the Bank since September 2004. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since February 2014. Mr Cheng has been an Independent Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since May 2017. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Professional Accountants of Canada. Mr Cheng has more than 30 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies.

In addition to his directorship in the Bank, Mr Cheng is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including CSI Properties Limited (Stock Code: 00497), CPMC Holdings Limited (Stock Code: 00906), Top Spring International Holdings Limited (Stock Code: 03688), Liu Chong Hing Investment Limited (Stock Code: 00194), Chia Tai Enterprises International Limited (Stock Code: 03839), Miricor Enterprises Holdings Limited (Stock Code: 01827), Somerley Capital Holdings Limited (Stock Code: 08439), Kidsland International Holdings Limited (Stock Code: 02122), C.P. Pokphand Co. Ltd. (Stock Code: 00043) and China Renewable Energy Investment Limited (Stock Code: 00987). Besides, Mr Cheng was an Independent Non-executive Director of C.P. Lotus Corporation (Stock Code before delisting: 00121) from September 2004 to October 2019, listing of its shares on the Stock Exchange was withdrawn with effect from 28 October 2019; DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) (Stock Code: 00620), a company listed on the Stock Exchange, from November 2015 to May 2020; HKC (Holdings) Limited (Stock Code before delisting: 00190), listing of its shares on the Stock Exchange was withdrawn with effect from 8 June 2021; and Goldbond Group Holdings Limited (Stock Code before cancellation of listing: 00172), listing of its shares on the Stock Exchange was cancelled with effect from 2 August 2021.

Mr LEE Ka Lun

aged 67, has been an Independent Non-executive Director of the Bank since February 2014. Mr Lee has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since November 2013. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), Chow Sang Sang Holdings International Limited (Stock Code: 00116), Medicskin Holdings Limited (Stock Code: 08307), Ever Harvest Group Holdings Limited (Stock Code: 01549) and Best Mart 360 Holdings Limited (Stock Code: 02360), all of which are listed on the Stock Exchange. Mr Lee is an accountant by profession and is a Fellow of the Association of Chartered Certified Accountants in the UK. He has over 20 years of experience in banking and auditing.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

Mr YU Lup Fat Joseph

aged 74, has been an Independent Non-executive Director of the Bank since August 2015. Mr Yu has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) and Yue Xiu Securities Holdings Limited since August 2015 and March 2021 respectively. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange, and an Independent Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since May 2021. Mr Yu holds a Master Degree in Applied Finance from Macquarie University in Australia, a Diploma of Management Studies from The University of Hong Kong and a Diploma from the Association of International Bond Dealers. Mr Yu was the Founding President of the Hong Kong Forex Club from 1974 to 1975. Mr Yu was also the Founding Deputy Chairman of the Hong Kong Capital Markets Association and Asia Chairman of the Association of International Bond Dealers. Mr Yu has held numerous senior managerial and advisory positions and has more than 40 years of experience in investment, banking and finance.

* *for identification purpose only*

Note: The directorships held by the Directors in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

SENIOR MANAGEMENT

Mr TANG Xianqing

aged 57, has been the Deputy Chief Executive of the Bank since November 2019. Mr Tang graduated from Hunan University of Science and Engineering and obtained a Master Degree in Economics (with research focus on International Finance) from Sichuan University. Mr Tang has 24 years of experience in business operations and management of Mainland commercial banks. He held senior positions in the head office and branches of three Mainland banks and possesses extensive experience in business operations, marketing, risk control, strategic planning and other aspects of the banking sector in Mainland China. Prior to joining the Bank, Mr Tang was a senior executive of a Hong Kong subsidiary of a state-owned enterprise, which is listed among Fortune Global 500 Enterprises.

Mr CHIU Tak Wah Edward

aged 59, Executive Vice President, has been the Chief Operating Officer of the Bank since May 2017 and Alternate Chief Executive of the Bank, Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since December 2019. He is also a Director of various subsidiaries of the Bank. Mr Chiu holds a Bachelor of Science degree at the King's College London, University of London and a Master of Science degree at The London School of Economics and Political Science, University of London. Mr Chiu has more than 30 years of experience in banking, financial services and management consultancy in the Asia Pacific region, Europe and China while working for several leading financial institutions. Prior to joining the Bank, he was a General Manager, Head of Operations of a leading Chinese bank, and held different senior positions in major financial institutions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

Mr CHAN Kam Ki Vincent

aged 59, Executive Vice President, has been the Chief Financial Officer of the Bank since April 2017. Mr Chan graduated from The Chinese University of Hong Kong and obtained a Master Degree in Applied Finance from Macquarie University, Australia. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the institute's Banking Regulatory Advisory Panel, a member of the American Institute of Certified Public Accountants, a designation holder of the Chartered Institute of Management Accountants and a Certified Internal Auditor of The Institute of Internal Auditors. Mr Chan has more than 30 years of auditing and financial controllership experience in the financial services industry. He worked for an international accounting firm and held regional roles in major cities of several international banks and senior positions in regional and local banks prior to joining the Bank.

Mr WOO Pak Kin Clement

aged 46, Executive Vice President, has been the Chief Risk Officer of the Bank since September 2019. Mr Woo holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Applied Accounting from Oxford Brookes University. He is a Fellow Chartered and Certified Accountant and a Chartered Financial Analyst. Mr Woo has more than 20 years of experience in the banking industry covering enterprise risk, credit risk, market risk and operational and information technology risk, liquidity risk, and compliance risk management, and possesses sound knowledge in formulating bank-wide risk management and compliance framework. Prior to joining the Bank, he was the Risk Management Director and Head of Risk Management of a leading Chinese bank.

Ms CHAN Yun Ling

aged 55, Executive Vice President, Head of Treasury and Markets. Ms Chan joined the Bank in April 2015. She holds a Bachelor of Arts degree from The Chinese University of Hong Kong, and had pursued studies in France and the United Kingdom. Specialising in financial markets business, Ms Chan has worked in major financial hubs including Hong Kong, Tokyo, Singapore, Shanghai and Taiwan, in charge of financial markets related activities in various financial institutions.

Mr SIN Tat Wo

aged 52, Executive Vice President, Head of Corporate Banking Division. Mr Sin joined the Bank in December 2015. He graduated from Hong Kong Baptist University with a Bachelor degree in Business Administration. He has over 25 years of experience in the banking industry in Hong Kong and Mainland. He worked for a number of major Chinese banks in their corporate, commercial and investment banking departments.

Ms LAM Pik Ha Eliza

aged 60, Executive Vice President, has been the Head of Financial Institutions Division since September 2018. Ms Lam has over 30 years of experience in corporate and institutional banking business and has held different senior positions with various international banks in managing corporate and institutional clients in the Asia Pacific region. Ms Lam obtained a postgraduate diploma in international marketing of the Society of Business Practitioner (U.K.).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 31 March 2022

Ms NG Sau Wai Sylvia

aged 54, Executive Vice President, has been the Head of Personal Banking Division of the Bank since October 2020. Ms Ng obtained a Bachelor of Social Sciences degree from The University of Hong Kong. She possesses over 20 years of working experience in the financial services industry, and has worked in various Chinese and foreign banks in Hong Kong overseeing retail banking business and marketing.

Ms CHENG Wing Yi

aged 48, Executive Vice President, has been the Head of Human Resources Division since September 2021. Ms Cheng holds a Bachelor Degree of Business Administration from the Chinese University of Hong Kong. With over 20 years of solid experience in the Banking Industry, Ms Cheng has held various key positions in the field of Human Resources and Talent Development in the Greater China and Asia Pacific Region of renowned international and local banks. She is also appointed as a committee member of the Banking Industry Training Advisory Committee by the HKSAR Education Bureau.

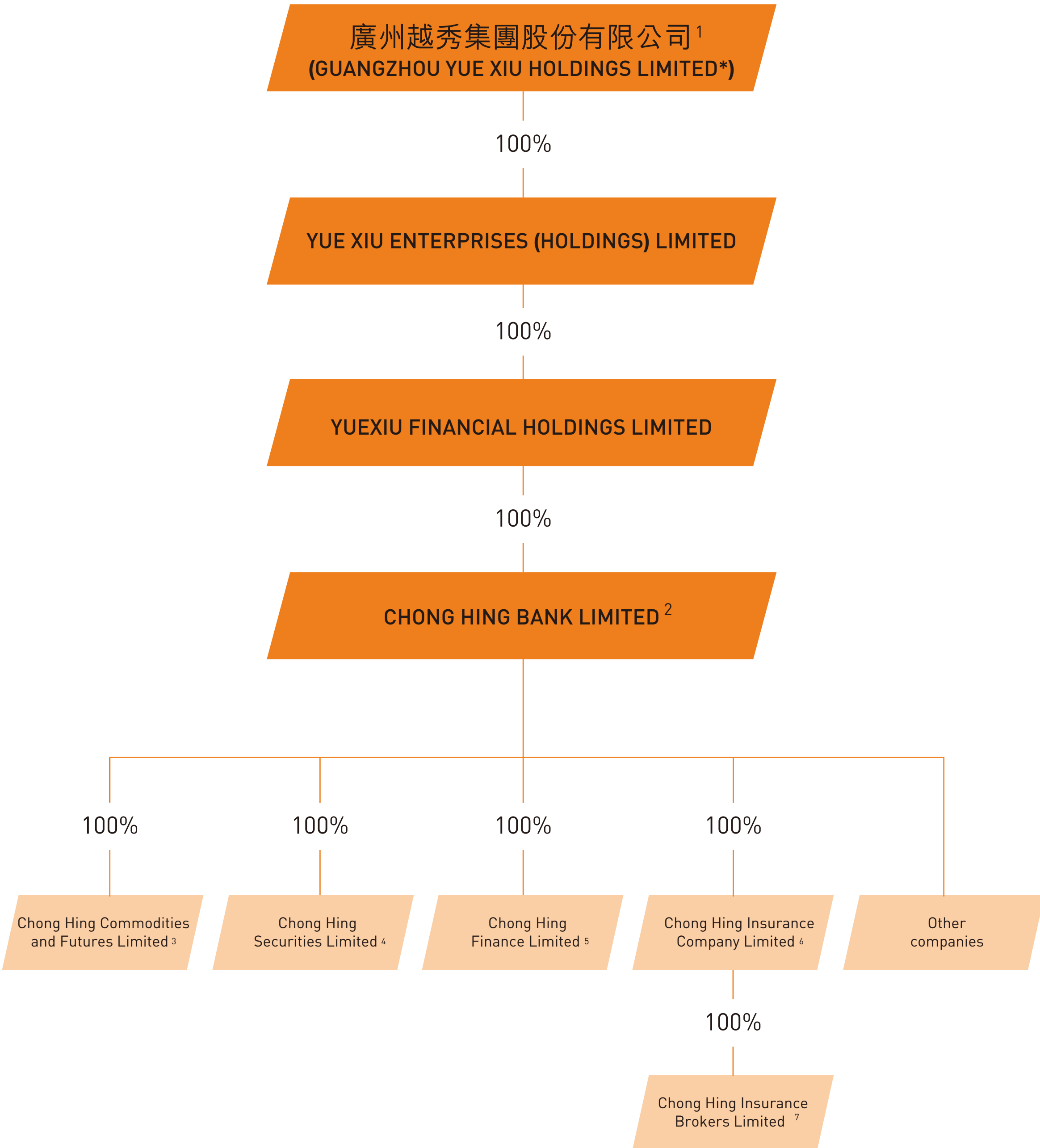
Ms LAI Wing Nga

aged 57, Executive Vice President, has been appointed the Company Secretary of the Bank since August 2015. Ms Lai has over 25 years of working experience in the corporate secretarial and governance areas of sizable listed companies and financial institutions. Prior to joining the Bank, Ms Lai was the group company secretary of AIA Group Limited from April 2010 to July 2015, which is a company listed on the Stock Exchange (Stock Code: 01299). She was the company secretary of Standard Chartered Bank (Hong Kong) Limited from April 2005 to March 2010 and before that was the company secretary of Industrial and Commercial Bank of China (Asia) Limited from April 2000 to April 2005. Ms Lai obtained a master of business degree from The University of Newcastle in Australia. She also obtained a postgraduate diploma in corporate finance from The Hong Kong Polytechnic University. Ms Lai is a fellow member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the U.K.

Note: The directorships held by the Senior Management in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

ABRIDGED CORPORATE STRUCTURE

as of 31 March 2022



1 *State-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government*

2 *Listing of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited was withdrawn on 30 September 2021*

3 *Registered with The Hong Kong Futures Exchange Limited as a participant*

4 *Registered with The Stock Exchange of Hong Kong Limited as a participant*

5 *Licensed under the Hong Kong Banking Ordinance as a deposit-taking company*

6 *Licensed under the Hong Kong Insurance Ordinance as an insurance company*

7 *Licensed under the Hong Kong Insurance Ordinance as an insurance broker company*

* *for identification purpose only*

CHAIRMAN'S STATEMENT

Mr ZHANG Zhaoxing
Chairman

The year 2021 saw the opening of China's "14th Five-Year Plan" as well as being a milestone year for the development of Chong Hing Bank (the "Bank" or "Chong Hing Bank"). Amid the lingering threat of the pandemic, the complex and challenging domestic and foreign situations, and the increasingly volatile market trend, Chong Hing Bank remained determined to seek progress in a stable manner and endeavoured to scale new heights of achievement. By continuing to consolidate its business foundation and uphold its strategies, the Bank made good progress in its core businesses, cross-border operations and digital transformation, and achieved a good beginning in its own "14th Five-Year Plan".

In the "Top 1000 World Banks" list issued by the British magazine "The Banker" in 2021, Chong Hing Bank reached 376th, setting a new record, making it one of the top 400 banks for the third consecutive year, and demonstrating the continuous improvement in its overall strength.

The continued uncertainties in the economy brought about by the pandemic created a major challenge to the banking industry in Hong Kong, with Hong Kong dollar interest rates hovering at historic lows and net interest margins under pressure. On the other hand, by benefiting from the swift economic recovery in Mainland China, the Mainland business of the Bank expanded rapidly. Meanwhile, the Bank grasped market opportunities that arose in the midst of adversity and achieved satisfactory growth in net fee and commission income. Operating profit before impairment allowances amounted to HK$2,525 million, an increase of 17.60% compared to 2020. Profit attributable to equity owners amounted to HK$1,505 million, an increase of 1.68% compared to 2020. The Board of Directors of the Bank (the "Board") has recommended payment of a final cash dividend of HK$260,000,000 for 2021. The total dividend payout for the year accounted for 30.06% (2020: 24.54%) of this adjusted profit attributable to equity owners, less the distribution paid on additional equity instruments.

CHAIRMAN'S STATEMENT

The major financial ratios for 2021 are as follows:

- Return on shareholders' equity: 5.03%
- Average liquidity maintenance ratio: 45.60%
- Total capital ratio as of 31 December 2021: 19.17%
- Tier 1 capital ratio as of 31 December 2021: 16.80%
- Loan to deposit ratio as of 31 December 2021: 72.23%

With the rolling out of vaccination programmes worldwide, the global economy gradually recovered from its trough in 2021. However, the emergence of mutated viruses, the blockage of global supply chains, the wavering monetary policies of various countries, and the continued geopolitical uncertainties have added unpredictability to the recovery. In Mainland China, the pandemic controls have been put in place effectively, and the national economy has maintained a steady recovery. The Gross Domestic Product (GDP) increased by 8.1% year-on-year, and the economy is expected to continue its stable growth. Hong Kong has shown resilient economic recovery in the past year and its financial market remained stable despite challenges, cementing Hong Kong's status as a major international financial centre.

The Outline of China's "14th Five-Year Plan" explicitly proposes building the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") in a high-quality manner. A number of financial liberalisation measures eagerly anticipated by the market have been piloted in the Greater Bay Area in order to further deepen and expand the interconnection between the financial markets of the Mainland and Hong Kong. This also created huge room for the development of the financial industry of Hong Kong. Guided by the corporate vision of becoming "an integrated commercial bank with cross-border expertise", Chong Hing Bank takes cross-border finance as its key development strategy. By strengthening regional linkages and establishing the business network across core cities in the Greater Bay Area, Chong Hing Bank continues to create distinctive, differentiated and comprehensive cross-border financial services, fully preparing for the "Cross-boundary Wealth Management Connect" to capitalise on the massive opportunities brought by this new initiative.

During the year, Yue Xiu Enterprises (Holdings) Limited completed the acquisition of the public equity of Chong Hing Bank. With the successful conclusion of the privatisation process, Chong Hing Bank became a wholly-owned subsidiary of Yuexiu Group. This fully reflected the confidence of Yuexiu Group in the operation and development of Chong Hing Bank and has solved the capital replenishment bottleneck for Chong Hing Bank. Yuexiu Group injected HK$5.3 billion into Chong Hing Bank at the end of 2021, significantly improving the capital adequacy ratio of the Bank and laying a solid capital foundation for its steady, long-term development.

In face of the new normal under the pandemic, fintech has become the key for the banking industry to seize new opportunities. During the year, the new core banking system of Chong Hing Bank has been successfully launched, helping the Bank to respond quickly to the ever-changing market trends and customer needs, and enabling the Bank to apply innovative business concepts to products and services. The integration of online and offline financial services injected strong momentum into the digital development of Chong Hing Bank.

CHAIRMAN'S STATEMENT

The year 2022 is a crucial one for Chong Hing Bank to implement strategies in accordance with its five-year development plan. In view of the multiple challenges posed by the global spread of mutated viruses and the complex external environment, Chong Hing Bank will build a solid foundation for its steady development and comprehensively drive a progressive and forward-looking risk management policy. Chong Hing Bank will continue to improve its business structure by taking cross-border operations as the main focus, and digital development as the engine, in order to achieve high-quality, long-term development. Mainland business is an important strategic segment of the Bank. With the steady progress achieved in establishing outlets in core cities in the Mainland, Chong Hing Bank's Mainland presence will further expand, demonstrating the Bank's commitment to becoming an integrated commercial bank based in Hong Kong, covering the Greater Bay Area and facing the whole country.

The ups and downs of 2021 posed many difficulties for the Bank. I would like to thank all our directors for their valuable leadership, as well as our customers and business partners for their trust and support, with special thanks accorded to our management team and the entire staff for their tireless efforts in making significant contributions to the remarkable development of the Bank. I am convinced that, adhering to the belief of "Exceed • Excel", we will gather our strength to set sail towards the future and move ahead with confidence.

ZHANG Zhaoxing
Chairman

Hong Kong, 31 March 2022

CHIEF EXECUTIVE'S STATEMENT

Mr ZONG Jianxin
Chief Executive

ECONOMIC ENVIRONMENT

In 2021, when COVID-19 vaccines became available, large-scale vaccination programmes were rolled out around the world, supporting a positive view for the global economy. However, the mutated virus strains then spread rapidly, once again threatening economic recovery. The US economy did begin to recover in 2021 — economic activity continued to expand, the labour market improved significantly, and Gross Domestic Product (GDP) increased by 5.7% year-on-year. Following the FOMC meeting in December 2021, the US Federal Reserve announced that it would accelerate the tapering of its bond-buying in response to rising inflation and indicated that interest rate hikes will kick off this year. The European economy also improved significantly in the second and third quarters of 2021, with year-on-year GDP growth in the Eurozone of 5.2% in 2021. However, due to the recurrence of the pandemic, many European countries tightened their quarantine measures again, resulting in a slowdown in growth. Such a situation, coupled with the tension in global supply chains and the intensified rise of inflation, leads to a resurfacing of uncertainty over the economic prospects.

CHIEF EXECUTIVE'S STATEMENT

With its economy sustaining a stable recovery trend, China maintained its leading position in the world for economic development and containing the pandemic, and achieved the targets for its major economic indicators. GDP growth was 8.1% for 2021. The Central Economic Work Conference held at the end of 2021 pointed out that Mainland China's economic development faces the triple pressures of contracting demand, supply disruptions, and downward forecasts. It was emphasised that this year, it is necessary to continue ensuring stability and security, and keeping the economy operating within a reasonable range. The People's Bank of China laid out the focus of its work for 2022, proposing to make monetary policy flexible and appropriate, expand financial support for key areas in a precise manner, deepen financial reforms continuously, and improve financial services and management comprehensively. The Renminbi exchange rate continued to be strong throughout the year, with the central parity rate against the US dollar rising by 2.34%, thus appreciating for two consecutive years. In the Mainland China cities where Chong Hing Bank primarily conducts its business, measures to contain the pandemic continued to be effective, economic and social development was strengthened in a sustainable manner, and the economy ran smoothly. Guangzhou's GDP rose by 8.1% year-on-year as the city's fixed asset investment grew rapidly and the service industry recovered steadily; Shenzhen's GDP rose by 6.7% year-on-year as the city's import and export volume of commodity trade reached a new high, with gross economic output exceeding RMB3 trillion; and Shanghai's GDP rose by 8.1% year-on-year as the city's industrial production, fixed asset investment and commodity imports and exports grew rapidly, and people's livelihood continuously improved.

As global economic activities further resumed, Hong Kong's economy recovered significantly in 2021, with GDP growth of 6.4% year-on-year. In terms of foreign trade, total exports of goods increased by 19% year-on-year, benefiting from solid external demand; and exports of services maintained a moderate increase of 1.1% even though inbound tourism came almost to a standstill. The increase was achieved mainly because trade and freight exchanges within the region were active and cross-border financial activities accelerated. Internal demands were boosted as a result of the improvement in the labour market, the launch of the Consumption Voucher Scheme by the HKSAR Government, and the improvement of business prospects. Private consumption expenditure and overall investment spending rose by 5.6% and 10.1%, respectively. The labour market continued to improve throughout the year, and the unemployment rate fell from a high of 7.2% at the start of the year to 3.9% in December. However, the ongoing pandemic is expected to put pressure on employment in consumer-related industries. Supported by the low interest rate environment, user demand, and improved economic prospects, the local property market saw brisk trading throughout the year. The overall property registration volume hit a nine-year high and the private residential price index rose to a historic high in September, finally recording an annual accumulative increase of 3.3%. In the Hong Kong stock market, plagued by negative news, the Hang Seng Index fell repeatedly from February to close at 23,397 points on the last trading day of 2021, down by 14.1% year-on-year. It was the biggest drop for 10 years.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2021 of Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank"), on a consolidated basis, are summarised below:

KEY FINANCIAL DATA

	31 December (12 months)		
	2021 HK$'000	2020 HK$'000	Variance
1. Operating profit before impairment allowances	**2,525,445**	2,147,413	+17.60%
2. Profit attributable to equity owners	**1,504,791**	1,479,978	+1.68%
3. Net interest income	**3,285,723**	2,926,552	+12.27%
4. Net fee and commission income	**529,439**	434,327	+21.90%
5. Net income from trading and investments	**407,508**	258,453	+57.67%
6. Other operating income	**173,785**	189,385	–8.24%
7. Operating expenses	**1,871,010**	1,661,304	+12.62%
8. Net impairment losses on financial assets	**792,612**	422,003	+87.82%

	As of 31 December 2021 HK$'000	As of 31 December 2020 HK$'000	Variance
9. Loans and advances to customers	**155,060,963**	142,381,617	+8.91%
10. Deposits from customers	**201,087,108**	183,228,291	+9.75%
11. Investments in securities	**56,371,763**	52,853,752	+6.66%
12. Total assets	**255,247,558**	232,899,647	+9.60%

	31 December (12 months)		
	2021	2020	Variance
13. Return on shareholders' equity (Note 1)	**5.03%**	6.01%	–0.98 p.p
14. Net interest margin	**1.35%**	1.34%	+0.01 p.p
15. Cost to income ratio	**42.56%**	43.62%	–1.06 p.p
16. Average liquidity maintenance ratio	**45.60%**	44.98%	+0.62 p.p

CHIEF EXECUTIVE'S STATEMENT

	As of 31 December 2021 HK$'000	As of 31 December 2020 HK$'000	Variance
17. Non-performing loan ratio	**1.29%**	0.65%	+0.64 p.p
18. Loan to deposit ratio	**72.23%**	73.65%	−1.42 p.p
19. Total capital ratio (Note 2)	**19.17%**	16.79%	+2.38 p.p
20. Tier 1 capital ratio (Note 2)	**16.80%**	14.36%	+2.44 p.p
21. Common Equity Tier 1 capital ratio (Note 2)	**13.93%**	11.27%	+2.66 p.p

Notes:

(1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.

(2) The ratio is calculated on a consolidated basis in accordance with the Banking (Capital) Rules.

ANALYSIS OF KEY FINANCIAL DATA

In 2021, profit attributable to equity owners of the Bank amounted to HK$1,505 million, representing an increase of 1.68% compared to 2020. The operating profit before impairment allowances amounted to HK$2,525 million, representing an increase of 17.60% from 2020. The increase in consolidated profit for the year was mainly attributable to the increase in net interest income and net fee and commission income, which was partly offset by the increase in provision for impairment losses on financial assets.

Net interest income was HK$3,286 million, an increase of 12.27% as compared to 2020. Driven by the Bank's proactive balance sheet management, net interest margin of the Bank remained stable in 2021, slightly increasing by 1 basis point to 1.35% as compared to 2020.

Net fee and commission income increased by 21.90% to HK$529 million, mainly due to the increase in fee income from loan-related businesses, which was partly offset by the moderate decrease from securities dealings and wealth management business.

Foreign exchange and other treasury customer activities remained stable. Net income from trading and investments increased by 57.67% to HK$408 million, which was mainly derived from foreign currency funding swap activities, translation gain from foreign currency assets and liabilities, income from securities investment and trading.

In 2021, impairment allowance losses on financial assets increased by HK$371 million to HK$793 million as compared to 2020, mainly driven by the credit deterioration of certain customers under the impact of industry-specific risks and management overlay on unimpaired credit exposures in the Mainland which increased the expected credit risk. This was moderated by the release of impairment allowance as a result of improvement in macroeconomic factors in the expected credit loss model.

While the Bank continued to maintain cost effectiveness and process streamlining, the operating expenses increased by 12.62% to HK$1,871 million as compared to 2020. Such increase was mainly driven by the increase in staff cost particularly for the expansion of the Mainland network, higher depreciation and IT related professional cost due to the implementation of the new core banking systems during the year.

CHIEF EXECUTIVE'S STATEMENT

Loans and advances to customers recorded an increase of 8.91% to HK$155.1 billion. The Bank continued to adopt prudent credit risk management. Yet, due to the uncertainty brought to economy by the COVID-19 pandemic and the specific risks affecting certain industries, the non-performing loan ratio for 2021 rose to 1.29%.

Deposits from customers grew by 9.75% to HK$201.1 billion. The Bank continued to maintain a stable deposit base to fund the asset growth and the wealth management and cross-border financial business development.

Total assets increased by 9.60% to HK$255.2 billion. As at 31 December 2021, 71.08% of the Bank's assets were based in Hong Kong.

With the proactive and effective management of terms and structures of assets and liabilities, the Bank managed to keep a healthy liquidity and reduce the level of loan to deposit ratio by 142 basis points to 72.23%, whereas the average liquidity maintenance ratio remained stable at 45.60%.

Total capital ratio was at 19.17%, the Tier 1 capital ratio was at 16.80% and the Common Equity Tier 1 capital ratio was at 13.93%.

Overall, the Bank's core businesses, financial position and asset quality remained strong in 2021, while the capital adequacy ratio and liquidity maintenance ratio were above the relevant statutory requirements.

DIVIDEND

To properly maintain the balance between sharing our success and preserving capital for future growth, the Board of Directors of the Bank (the "Board") has recommended the payment of a final cash dividend of HK$260,000,000 for the financial year of 2021 (2020 final cash dividend: HK$223,758,000). Total dividends for the financial year of 2021, including the interim cash dividend of HK$107,015,000 paid on Thursday, 7 October 2021 (2020 interim cash dividend: HK$106,978,000), amounted to HK$367,015,000 (2020 total dividends: HK$330,736,000). The total dividend payout for the year as a percentage of adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 30.06% (2020: 24.54%).

CHONG HING BANK BECAME A WHOLLY-OWNED SUBSIDIARY OF YUEXIU GROUP

The Bank and Yue Xiu Enterprises (Holdings) Limited (the "Offeror" or "Yuexiu Group") jointly issued an announcement dated 18 May 2021 in relation to, among other matters, the proposal for the privatisation of the Bank by the Offeror by way of a scheme of arrangement (the "Scheme") under Section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and for the withdrawal of listing of the shares of the Bank on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Proposal"), and the proposal for the Offeror to make an offer to cancel all Outstanding Share Awards (as defined in the Scheme Document) held by each Outstanding Share Award Holder (as defined in the Scheme Document) (the "Share Award Offer"). The Bank and the Offeror have further jointly issued the composite scheme document dated 30 July 2021 (the "Scheme Document") in relation to, among other matters, the Proposal and the Share Award Offer.

CHIEF EXECUTIVE'S STATEMENT

The Scheme was passed at the Court Meeting and the EGM held on 30 August 2021, and was approved and implemented at the court hearing held on 23 September 2021. The Offeror paid on 7 October 2021 to each Scheme Shareholder (as defined in the Scheme Document) a cancellation price of HK$20.80 per Scheme Share (as defined in the Scheme Document) in cash for the cancellation and extinguishment of such Scheme Share(s). Under the Share Award Offer, it has become unconditional immediately upon the Scheme becoming effective. Under the Share Award Offer, the Share Award Offer Price will, upon the satisfaction of the relevant vesting and other conditions as set out in the rules of the Share Award Scheme and/or as specified by the Board, and subject to the compliance with the rules of the Share Award Scheme, be paid to each Outstanding Share Award Holder on a staggered basis within seven business days (as defined in the Takeovers Code) following the vesting date of the relevant Outstanding Share Award(s) which is determined in accordance with the existing vesting schedule of the Outstanding Share Award(s) held by such Outstanding Share Award Holder as at the Scheme Record Date.

The Offeror completed the privatisation of Chong Hing Bank on 27 September 2021, and Chong Hing Bank has since then become a wholly-owned subsidiary of Yuexiu Group. The listing of the Bank's shares on the Stock Exchange was withdrawn on 30 September 2021.

The Scheme would facilitate the Yuexiu Group's contribution of financial resources into the Bank to satisfy capital requirements without dilution of the interests of the Bank's independent shareholders and the Yuexiu Group's support of the execution of the Bank's growth plan.

Furthermore, Yuexiu Group and the Bank can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Bank can also better utilise the resources which would otherwise go towards administrative and compliance-related matters on business operations of the Group.

In December 2021, the Bank received a capital injection of HK$5.3 billion from Yuexiu Group. This marks the first capital injection by Yuexiu Group after Chong Hing Bank became its wholly-owned subsidiary, which further strengthens the Bank's capital base and highlights Yuexiu Group's strong determination and firm confidence in the operation and development of Chong Hing Bank. Also, it means Chong Hing Bank is able to secure capital replenishment in a more timely and flexible manner, which is conducive to business expansion and long-term development. Within merely three months after the successful completion of privatisation, Chong Hing Bank received capital injection from Yuexiu Group, which significantly enhanced the Bank in terms of its capital adequacy ratio, risk management capability and asset growth potential, enabling the Bank to achieve future business development and operational enhancement.

BUSINESS REVIEW

CORPORATE BANKING

Chong Hing Bank provides a comprehensive range of banking products and professional services to its corporate customers in Hong Kong and the Mainland, including corporate loans, trade finance, cash management, cross-border business solutions and financial market products. The Bank has continued to expand its target customer base, focusing on providing a wide variety of cross-border financial products and services to its customers in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area").

To assist local SMEs, the Bank fully supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited and the "Special 100% Loan Guarantee" under this scheme. Meanwhile, the Bank has strengthened its internal cross marketing and offers corporate customers more value-added services such as financial management for employees, MPF services and wealth management, and facilitating customers to access its one-stop banking services platform.

As for the syndicated loan business, in 2021 the Bank successfully completed the transaction of 42 syndicated loans and 14 club loans, in four of which the Bank acted as mandated lead arranger and bookrunner. The number of transactions and amount of handling fee income both reached a record high since the Bank's establishment of the syndicated loan business in 2017. To further strengthen the platform for all-round development of the syndication loan business, the Bank set up a syndication agency team in 2020 and was awarded a total of three mandates. Meanwhile, the Bank proactively enhanced the quality of the loan asset portfolio and improved relevant returns via secondary market transactions. The Bank also seized the cross-border business opportunities brought about by the Greater Bay Area development and successfully executed 23 cross-border finance transactions with a total commitment reaching HK$5.7 billion.

In 2021, the loan portfolio balance, net interest income and non-interest income from the corporate banking sector of the Bank recorded steady growth year-on-year. As an integrated commercial bank offering cross-border expertise services, and leveraging on its competitive edge in network interaction between Hong Kong and the Mainland, Chong Hing Bank will continue to provide its customers with diversified and comprehensive financial products and services. These are designed to accommodate customers' funding requirements in the Greater Bay Area and effectively manage their interest rate and exchange rate risks through the Bank's treasury product portfolio.

CHIEF EXECUTIVE'S STATEMENT

PERSONAL BANKING

In 2021, global economic activity picked up and Hong Kong's economy showed signs of recovery. However, due to the continued halt to quarantine-free travel between Hong Kong and the Mainland, inbound tourism continued to stagnate, hindering the momentum of economic recovery and opportunities for cross-border business expansion.

In the low interest rate environment, the personal banking business strived to establish a customer-oriented model of comprehensive wealth management as well as to provide one-stop personal banking services to customers in Hong Kong and the Greater Bay Area. In 2021, the personal banking business continued to develop in a stable manner:

- Through the development of the wealth management business, coupled with the promotion of wealth management, an improvement in processes and diversified investment products, as well as an enhanced wealth management platform, the Bank is wholly committed to meeting customers' all-round needs. Despite the volatility in the investment market, total income from the investment business has recorded high growth for two consecutive years including a year-on-year increase of approximately 25% this year, with funds being the main growth driver. The Bank has comprehensively expanded its cross-border wealth management business, with the "Cross-boundary Wealth Management Connect" initiative being a key development project in 2022. The objective is to provide an easily accessed investment channel for cross-border investors in the Greater Bay Area so as to maintain the Bank's core competitiveness as an asset management hub. In the life insurance business, sales staff were still unable to meet with customers face-to-face during the year due to the pandemic. This affected the business to a certain extent.

- The deposit business benefited from the increasingly active investment market, with customers placing more deposits in savings and current accounts for liquidity purposes. This boosted the share of low-interest deposits and widened the Bank's spread income. In addition, the Bank was committed to optimising its electronic service channels by introducing RMB "Cloud Rate", expanding deposit term options and launching new digital banking customer promotions, thereby bringing more convenient and caring services to customers during the pandemic. The time deposits made through electronic channels increased by more than 100% during the year.

- In the loan business, the quality of personal bank loans remained at a healthy level. To capture the opportunities arising from cross-border financial demand, the Bank has continued to enhance its cross-border financial services and has actively launched new cross-border property mortgage services to provide one-stop mortgage solutions for Hong Kong permanent residents buying properties in Mainland cities in the Greater Bay Area. The Bank also actively optimised its financing product platform to provide a wide range of secured loan products, boost the wealth management products financing business, meet the asset allocation needs of cross-border and local target customer groups, and drive other personal banking and cross-selling business through retail loan business.

  Chong Hing Bank strives to provide comprehensive wealth management and one-stop personal banking services to customers in Hong Kong and other cities in the Greater Bay Area through adopting a customer-oriented business model.

"Exceed Banking" – A new segment brand of Chong Hing Bank

Digital banking customer promotion

CHIEF EXECUTIVE'S STATEMENT

- In April 2021, a new segment brand, "Exceed Banking", was launched to offer a more comprehensive wealth management package to customers with total assets of HK$1 million or more, and help customers to grow their wealth through promotions and professional wealth planning services. The Bank will continue to enrich and optimise the service packages and offers of "Exceed Banking" to enhance the experience of high-end customers while preparing to capture the opportunities for serving the wealth management needs of cross-border customers and for other cross-border businesses. The Bank will also implement customer structure optimisation to focus on attracting and nurturing young customer groups by developing and optimising online and mobile banking functions.

- The Mongkok Branch was relocated on 6 December 2021 and is now equipped with a separate wealth management centre to provide customers with a comfortable and convenient environment. Various types of safe deposit box are also available to cater for the needs of different customers. The Bank will initiate an environment optimisation plan for setting up wealth management centres and cross-border wealth management centres at branches, and also for upgrading the self-service facilities as part of the effort to accelerate digital transformation.

The Mongkok Branch, relocated in December 2021, is equipped with a separate wealth management centre to provide customers with a comfortable and convenient environment.

- In the credit card and payment business, the Bank's credit card retail sales transactions increased by 5% year-on-year. The average transaction value of credit card retail sales recorded approximately double-digit growth year-on-year, benefiting from the Consumption Voucher Scheme introduced by the HKSAR Government in the third quarter. For acquiring business, since the launch of the electronic Consumption Voucher Scheme, the proportion of local small stores using the electronic platform has increased significantly. The Bank launched the "All-In-One" model for acquiring business, supporting all kinds of payment methods through a single terminal, including Visa, Mastercard, UnionPay, WeChat Pay, AliPay, UnionPay App, ApplePay, GooglePay and HuaweiPay. This is convenient for merchants and provides both merchants and consumers with a variety of payment options and experiences in addition to cash payment. As a result, the acquiring amount increased by nearly 30% year-on-year. In addition, in proactive response to the online shopping trend, which is the new consumption pattern in the post-pandemic era, the Bank will strengthen cooperation with the facilitators of e-commerce payment. It will provide them with online and offline payment processing services in order to achieve a diversified business and drive revenue growth.

CHIEF EXECUTIVE'S STATEMENT

TREASURY AND MARKETS BUSINESS

The Bank is committed to developing its treasury and markets business, registering significant growth during the year in areas such as treasury activities and customer cross-selling business. The Bank has established proprietary trading business in recent years, and its market share has increased as a result of enhanced competitiveness, generating additional revenue for the Bank.

With its treasury business, the Bank aims at optimising the balance sheet by effectively applying a wide variety of financial instruments while complying with established risk limits and maintaining a prudent liquidity level. The Bank continued to leverage on its dynamic management strategy to capture potential business opportunities and diversify revenue sources.

As part of its strategic planning, the Bank has gradually improved its marketing team and enriched its financial products, offered comprehensive services catering to the needs of different customer segments, and promoted cross-selling business, thereby increasing its fee income.

MAINLAND OPERATIONS

In 2021, the Bank's Mainland branches and sub-branches actively responded to the complex and volatile external environment, maintaining steady but progressive development. By enhancing risk prevention and control, striving to develop markets, reinforcing management's abilities and improving the serving capability, the Bank has made a promising beginning to its "14th Five-Year Plan". Its business development maintained a stable momentum, while its operating efficiency enhanced steadily, its quality customer base was continuously consolidated and its asset quality remained good.

The Mainland government institution business kept up a sound momentum of development. The Bank's Mainland branches and sub-branches have effectively reinforced their relationships with core institutional customers of Guangdong Province, and in Guangzhou, Shantou and Hengqing. By continuously improving the quality of their services and with the successful expansion of their customer base to institutional customers at the regional level, the Bank has recorded steady growth in the deposit scale of Mainland institutions.

The Bank's corporate business and income have recorded steady growth. The Bank's Mainland institutions constantly broaden the sources of deposits of their corporate customers, have made unremitting efforts in customer marketing and deepened cooperation with customers, thus maintaining the steady growth of corporate deposits. By strengthening the management of exposure to credit risk and optimising its credit components, the Bank's loan business has gained sound development. The Bank strengthened its cooperation with investing and commercial institutions, and enhanced its customer service capability through providing comprehensive financial services solutions, thereby increasing its corporate business fee income.

The income from the financial market business continued to make a larger contribution. The Bank's Mainland institutions have proactively enriched their asset portfolios and broadened their income streams in the financial market business. The Guangzhou Branch obtained access for the "interest rate swap business" in the national interbank market, and introduced a variety of investment products, including forfeiting in the secondary market, US dollar placement and deposit transactions with non-banking institutions, and public offering funds. The Guangzhou Branch constantly accelerated its scale of underwriting local government bonds and assisted the Macau Branch in underwriting bonds issued by the Guangdong Government overseas. The Shenzhen Branch achieved its first online interbank deposit transaction through the local currency trading system of the National Interbank Funding Center.

CHIEF EXECUTIVE'S STATEMENT

Cross-border business was constantly expanded. The Bank proactively integrated into the strategic planning of the Greater Bay Area, continued to strengthen the synergies of the financial institutions in Guangdong, Hong Kong and Macau, and launched and optimised cross-border products continuously to promote the steady development of cross-border business. In 2021, the cross-border settlement of Mainland branches and sub-branches has doubled as compared with the previous year, reaching RMB10 billion; the Guangzhou Branch, as the management bank in Mainland China, was granted for the first time the highest rating in foreign exchange activities by regulatory authorities; and the Shenzhen Branch implemented the Bank's first cross-border RMB Forfeiting asset transfer business.

The establishment of Mainland branches and sub-branches was implemented in an orderly manner. During the year, the Shenzhen Branch and the Tianhe Sub-branch (now renamed as the Haizhu Sub-branch) have been relocated, and the new Nanshan Sub-branch in Shenzhen was officially opened on 12 July 2021. The Bank currently has a network of 4 branches and 7 sub-branches in Mainland China. Meanwhile, preparations for the establishment of the Beijing Branch and Zhongshan Sub-branch made smooth progress.

During the year, the Shenzhen Branch and Haizhu Sub-branch have been relocated and the new Shenzhen Nanshan Sub-branch was officially opened in July 2021. The Bank currently has a network of 4 branches and 7 sub-branches in Mainland China.

The relocation of the Shenzhen Branch

The relocation of the Haizhu Sub-branch

Shenzhen Nanshan Sub-branch was officially opened in July 2021.

CHIEF EXECUTIVE'S STATEMENT

CHONG HING SECURITIES LIMITED

The US Federal Reserve, confirming that inflation is beginning to heat up, is expected to take measures such as cutting down the purchase of bonds and beginning a rate hike policy soon. The global financial markets will be unfavourably affected, and those in the New Economy Category Sector which will be particularly hit hard. Securities markets in Hong Kong will also be dragged down and in addition, as the Mainland government strengthens its supervision of related businesses, the overall performance may be worsened. During the year, the total trading volume for Chong Hing Securities decreased slightly by 3% year-on-year, while the volume of trading via online systems and commission income therefrom recorded 21% growth, with the number of successful orders via electronic channels representing approximately 50% of the total successful orders. With the introduction of online systems for the Wealth Accumulation Plan (Monthly Stock Savings), the younger generation is expected to be attracted to use this service, thus bringing new opportunities for Chong Hing Securities.

CHONG HING INSURANCE COMPANY LIMITED

With sporadic outbreaks of the pandemic occurring in different parts of the world, uncertainties over the path to the resumption of global business activities continued to exist. This has also affected the development of the general insurance business. Although claims in the reinsurance business have increased, driven by its professional operations, Chong Hing Insurance's gross premiums and pre-tax earnings remained sound during the year, and the performance was stable overall.

CHONG HING INSURANCE BROKERS LIMITED

As the agent for the "Proposed Policy Owner" scheme, Chong Hing Insurance Brokers seeks suitable insurance solutions from different insurance companies to suit customers' insurance and financial needs. It has made every effort to expand its service to middle and high-end individual and corporate customers in Hong Kong and Mainland cities of the Greater Bay Area, assisting them in buying long-term life insurance in Hong Kong. During the year, Chong Hing Insurance Brokers successfully provided quality services to policyholders and helped them achieve their wealth accumulation and family protection goals through insurance solutions such as "premium financing".

TRANSFORMATION OF BUSINESS DEVELOPMENT

Fintech

The Bank's successful launch of the new core banking systems in Hong Kong and Macau in April and October 2021 respectively signifies the establishment of a core operational foundation to enable Chong Hing Bank to push ahead with its digital transformation. With the support of the new core banking system, the Bank continues to invest more resources in its digital transformation to create business value by empowering different operational areas with the latest technology. The Bank also continues to build operational strength to take its efficiency, risk control and customer experience to a new level.

With a focus on the digital banking customer experience, the Bank introduced a number of functional enhancements. These included the opening of Chong Hing Securities account through Mobile Banking referral, activation of the Internet Banking services by online deposit accounts, the instant opening of Internet Banking accounts at branches, the online reactivation of dormant accounts, and a customer referral programme for online transactions. Through digital banking promotions, the Bank was able to reach out to customers through multiple channels and promote diversified online products. This effectively increased customer stickiness and doubled the transaction conversion rate year-on-year. Approximately 70% of new customers converted to digital banking in 2021, with online financial transactions increasing by 24% year-on-year.

The Bank successfully launched new core banking systems in Hong Kong and Macau in April and October 2021 respectively, and entered a new stage in its digital transformation.

Hong Kong

Macau

The Bank attaches great importance to enhancing customer experience and launched various digital banking promotion activities in the year.

Operational Optimisation

The Bank continued to enhance its operations to accelerate its transformation, thereby improving operational efficiency and enhancing customer experience. A total of 28 new process enhancement projects were implemented during the year, including the "Exceed Banking" segment brand, the Account Opening Witness Service, and the FPS Addressing Service (for corporate customers). In addition, the Bank continued to centralise its operational initiatives in order to ease the workload of business units. The expansion of transaction banking services was commenced at the Mainland operations unit, including for remittances, the express opening of corporate accounts, quick cross-border remittances, express corporate bank confirmation, and improvement of the relevant charges of correspondent banks.

CHIEF EXECUTIVE'S STATEMENT

The Bank's new core banking system lays an important technological foundation for its digital transformation. From the Fintech perspective, by formulating the information and financial technology strategies of the "14th Five-Year Plan", the Bank will accelerate its digital transformation projects in the next three years, and increase financial technology-related talents and investment. Following the implementation of the Robotic Process Automation (RPA) over the past two years, the Bank completed the SAS Anti-Monday Laundering System for Screening, the Customer Data Collection and Screen Printing, the Purchase Order Payment and other administrative, settlement and compliance automation projects. These helped to save more than 600 hours of processing time per month.

CORPORATE CULTURE

The Bank continued to strengthen its corporate culture promotion, with "risk culture" as the focus for 2021. The Bank is committed to enhancing the risk awareness of its employees and promoting the Bank's sustainable and healthy development by various cultural initiatives.

- The "Chong Hing People's Charter" was launched with the theme of "Risk Management Culture" to raise employees' understanding of risk management and their responsibility for it.
- "The 3rd Corporate Culture Ambassador Programme" was launched, in which 25 employees were appointed as culture ambassadors; 37 corporate cultural events with over 1,340 participants were held, to deepen employees' understanding and recognition of corporate culture.
- The "Risk Management Awards 2021" was established to recognise employees who are committed to going beyond their areas of responsibility and who have demonstrated excellence in risk management processes.
- The Star Programme and Staff Compliments Platform were established to recognise units and employees for their commitment to corporate culture and service excellence, and to promote a sense of belonging and team spirit.
- A professional organisation was appointed to conduct customer service surveys to examine the effectiveness of the implementation of the Bank's corporate culture.

TALENT DEVELOPMENT

The Bank cares deeply for its employees and is committed to providing attractive personal development opportunities. To achieve the growth of value together, the Bank formulates new policies and encourages employees to participate in the Bank's competitiveness promotion and sustainability arrangements through a variety of activities and programmes.

- In line with the Bank's "14th Five-Year Plan" and in response to the promotion of the "Capacity Building for Future Banking" initiative by the Hong Kong Monetary Authority ("HKMA"), the Bank launched the "Financial Technology Training Series" and the "Greater Bay Area Financial Services and Cross-boundary Wealth Management Certificate Programme".
- The Bank continued to enhance the professionalism of employees, and assisted and subsidised employees to obtain qualifications under the Enhanced Competency Framework for Banking Practitioners promoted by the HKMA.
- The Bank implemented forward-looking manpower allocation and actively built a young talent pipeline. Its measures included carrying out a systematic Graduate Trainee Programme, supporting the Group's New Graduates-New Opportunities Scheme, and supporting the Greater Bay Area Youth Employment Scheme, the Fintech Career Accelerator Scheme and the Banking Talent Programme launched by the HKSAR Government and regulatory bodies.

CORPORATE RESPONSIBILITY

Chong Hing Bank is committed to fulfilling its corporate mission of benefiting the community, with a focus on community care, environmental protection and financial education. Through volunteer activities and community events organised in collaboration with various organisations, Chong Hing Bank shows its care for the needy and contributes to the community. Chong Hing Bank also attaches great importance to environmental protection. It has launched a sustainable financial development and green finance strategy programme and formulated a strategic plan for driving green and sustainable finance and related credit policies. In addition, the Bank is committed to promoting green living among its employees and the public, taking practical actions to protect the environment and fulfilling its corporate responsibility of supporting environmental protection.

CARING FOR THE COMMUNITY AND THE ENVIRONMENT

- In January and February, the Bank organised a Lunar New Year volunteer programme with Baptist Oi Kwan Social Service. Twenty five primary school students were invited to join the volunteers in making 3D fabric Fai Chun, enjoying the festive atmosphere of the Lunar New Year together.

- In March, the Bank participated in the "Earth Hour 2021" environmental protection activity organised by World Wide Fund for Nature.

- In April, the Bank held a "Zoom with the Elderly" (與長者Zoom傾談) activity jointly with the Multi-disciplinary Outreaching Support Team for the Elderly of Methodist Centre, to express care for the elderly people through talking with them via video about their daily lives during the pandemic. The volunteer team of the Bank also gave away food packs to the elderly.

CHIEF EXECUTIVE'S STATEMENT

- In May, the Bank organised a Mother's Day volunteer activity with Hong Kong Association of the Deaf. Ten children with hearing impairment were guided by the volunteers to make floral decorations and write messages to their mothers on greeting cards.

- In August, the Bank supported the Financial Education Workshops launched by the Hong Kong Association of Banks.

- In September, the Bank organised a bank visit for 30 students from Baptist Oi Kwan Social Service and held a talk about career planning and financial tips for them.

- In October, the Bank's volunteer team members went to Sha Ha Beach in Sai Kung to carry out beach cleaning activities, collecting and cleaning up coastal litter. They also kept detailed records of the amount and types of litter collected to help the Green Council analyse the data and understand the causes and severity of coastal pollution.

In 2021, Chong Hing Bank participated in the "Life Buddies" Mentoring Scheme launched by the Commission on Poverty for the first time. The Bank organised various activities for more than 20 students of PLK Lee Shing Pik College. The Bank hoped that through this programme, the Bank's volunteer mentors could share about their life and career experiences, and give advice and guidance to the students, so they could be facilitated to set a clearer life direction, work towards their dreams and goals, and develop a positive attitude in life.

"Life Buddies"
Mentoring Scheme

In addition, the Bank once again joined the "Child Development Fund" organised by the Labour and Welfare Bureau by providing matching donations to 30 participating children of the Baptist Oi Kwan Social Service programme. The Fund aims to provide support to children so that they can identity their long-term vision, develop savings habits, and achieve personal growth.

During the year, the Bank continued to care for the community in its operations and supported the fundraising activities of charities such as Po Leung Kuk, Tung Wah Group of Hospitals, The Community Chest of Hong Kong and Senior Citizen Home Safety Association. These activities included selling raffle tickets, collecting donations from flag days, and setting up donation boxes in branches. In addition, the Bank also arranged to attach the promotional leaflets of charities to the Bank's mailings to customers to help raise funds for the charities.

ACHIEVEMENTS UNDER CORPORATE RESPONSIBILITY

The Bank is committed to protecting the environment, supporting education and culture, and caring for the well-being of the underprivileged. It has actively participated in a wide range of charitable activities to fulfil its corporate social responsibility. The Bank's dedication to community service is demonstrated by the following awards and activities in 2021:

- The "Happy Company" logo presented by the Promoting Happiness Index Foundation.

- The Bank signed the "Joyful@Healthy Workplace" charter promoted by the Department of Health, the Labour Department and the Occupational Safety and Health Council.

- The "Good MPF Employer Award" for 2020–2021, the "e-Contribution Award" and the "MPF Support Award" presented by the Mandatory Provident Fund Schemes Authority.

CHIEF EXECUTIVE'S STATEMENT

- The "Talent Development Award" under the "Hong Kong Banking Industry Talent Development Awards Programme" presented by The Hong Kong Institute of Bankers.

- The "Employer of the Year (Grand Award)" and "Best Employer Branding Video Award (Grand Award)" in the "Best HR Awards 2021" awarded by CTgoodjobs.

- The "Social Capital Builder Logo Award 2020-2022" presented by the "Community Investment and Inclusion Fund" under the Labour and Welfare Bureau.

- The 10 Years plus Caring Company Logo awarded by the Hong Kong Council of Social Service.

- The "Second Runner-up Award in the Industrial and Commercial Institutions and Group of the Charity Raffle Competition" and the "Raffle Ticket Sales – Excellent Performance Award" presented by the Tung Wah Group of Hospitals.

CORPORATE GOVERNANCE

The Bank fully recognises the importance of compliance with relevant regulations and regulatory requirements and the maintenance of good corporate governance standards to the sustainable development of the Bank. Hence the Bank adopts and implements corresponding measures to ensure compliance with relevant regulations and regulatory requirements in order to maintain high-quality corporate governance.

For details of the Bank's corporate governance practices, please refer to the section entitled "Corporate Governance Report" of this Annual Report.

AWARDS AND RECOGNITIONS

The Bank is committed to providing quality banking services and improving operational efficiency. In 2021, the following awards from professional bodies were received by the Bank:

- In the 2021 "Top 1000 World Banks" list issued by the British magazine "The Banker", Chong Hing Bank's ranking climbed further to 376th, making it one of the top 400 banks for the third consecutive year.

- The Bank won the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the 13th time and received the "Best SME's Partner Gold Award" for the third consecutive year.

- The Bank received the "Straight Through Processing (STP) Award" of the US dollar from the Bank of New York Mellon for the 13th consecutive year.

CHIEF EXECUTIVE'S STATEMENT

- The "One-stop Portal for Shenzhen-Hong Kong Commercial Services" setup in the Shenzhen Branch was awarded the Third Prize in the "Financial Innovation Awards" 2020 by the Guangdong Government.

LOOKING AHEAD

The global economy gradually recovered in 2021 and Hong Kong's economy gradually stabilised. However, the banking industry is still facing numerous challenges due to the threat of the more infectious mutated virus and the uncertain geopolitical environment, all of which are affecting the macroeconomic growth momentum.

Looking ahead to 2022, Chong Hing Bank will adhere to its business philosophy of "seeking progress in a stable manner and aiming high" in the face of a still complex operating environment, focusing on risk management and the pursuit of high-quality development. The Bank will strive for steady growth in its business performance and make solid progress towards achieving the goals of the Bank's "14th Five-Year Plan".

IN APPRECIATION

In 2021, Chong Hing Bank reached an important milestone in its development history. With the completion of the privatisation process, Chong Hing Bank became a wholly-owned subsidiary of Yuexiu Group and was successfully delisted from the Hong Kong Stock Exchange, signifying greater flexibility in the Bank's future capital replenishment planning. The Bank subsequently received a capital injection from Yuexiu Group, further strengthening the Bank's capital strength and laying a solid foundation for its long-term development.

Despite the continuing pandemic and the complex and volatile operating environment, the Bank achieved good operating results in the tough times of 2021. I would like to express my sincere gratitude to the Board for their wise leadership and to the management team and all staff for their dedication. Heartfelt thanks also go to our shareholders, partners and customers who have consistently supported and trusted the Bank. With many challenges ahead, Chong Hing Bank will work together as a team to make a greater contribution to the Bank's business performance.

ZONG Jianxin
Chief Executive

Hong Kong, 31 March 2022

DIRECTORS' REPORT

The Directors of Chong Hing Bank Limited (the "Bank") are pleased to present their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2021.

PRIVATISATION

The Bank and Yue Xiu Enterprises (Holdings) Limited (the "Offeror") have jointly issued an announcement dated 18 May 2021 in relation to, among other matters, the proposal for the privatisation of the Bank by the Offeror by way of a scheme of arrangement (the "Scheme") under Section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and for the withdrawal of listing of the shares of the Bank on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Proposal"), and the proposal for the Offeror to make an offer to cancel all Outstanding Share Awards (as defined in the Scheme Document) held by each Outstanding Share Award Holder (as defined in the Scheme Document) (the "Share Award Offer"). The Bank and the Offeror have further jointly issued the composite scheme document dated 30 July 2021 (the "Scheme Document") in relation to, among other matters, the Proposal and the Share Award Offer.

The Proposal is approved and implemented, the Offeror paid to each Scheme Shareholder (as defined in the Scheme Document) a cancellation price of HK$20.80 (less the Dividend Adjustment (as defined in the Scheme Document) (if any)) per Scheme Share (as defined in the Scheme Document) in cash for the cancellation and extinguishment of such Scheme Share(s). Under the Share Award Offer, which became unconditional immediately upon the Scheme becoming effective, each Outstanding Share Award Holder accepting the Share Award Offer received a share award offer price of HK$20.80 (less the Dividend Adjustment) per Outstanding Share Award (as defined in the Scheme Document) in cash for cancellation of such Outstanding Share Award(s) in accordance with the terms set out in the Scheme Document.

As the Scheme became effective, the Bank became an indirect wholly-owned subsidiary of the Offeror and the listing of the Bank's shares on the Stock Exchange has been withdrawn with effect from 4:00 p.m. on 30 September 2021. For details of the Proposal, please refer to the Scheme Document.

The Proposal would facilitate the Offeror's contribution of financial resources into the Bank to satisfy capital requirements without dilution of the interests of the Bank's independent shareholders and the Offeror's support of the execution of the Bank's growth plan following implementation of the Proposal.

Furthermore, following the implementation of the Proposal, the Offeror and the Bank can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Bank can also better utilise the resources which would otherwise go towards administrative and compliance-related matters on business operations of the Group.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is engaged in provisions of banking and related financial services. Details of the principal activities and other particulars of the Bank's principal subsidiaries are set out in note 22 to the consolidated financial statements.

DIRECTORS' REPORT

A discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including a fair review of the business and a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2021 (if any), as well as indication of likely future development in the Group's business are set out in the sections headed "Financial Summary" on pages 2 to 3, "Chairman's Statement" on pages 14 to 16, "Chief Executive's Statement" on pages 17 to 36 and note 7 to the consolidated financial statements on pages 112 to 162 in this Annual Report. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and an account of the key relationships of the Group with its stakeholders are contained in the "2021 Environmental, Social and Governance Report", which is an online report available on the website of the Bank. The discussion referred to the above form part of this report.

BUSINESS PERFORMANCE

The Group's total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	2021 HK$'000	2020 HK$'000 (Restated-Note)
Corporate and personal banking	**3,457,614**	2,938,976
Financial markets activities	**589,220**	465,521
Securities business	**165,023**	169,877
Others	**184,598**	234,343
	4,396,455	3,808,717

Note: Certain comparative figures have been restated to conform to the current year's presentation.

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides fully automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities business of the Group includes securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

An analysis of the Group's performance for the year by operating and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 76 and 77.

An interim cash dividend of HK$107,015,000 (2020: HK$106,978,000) was paid to the shareholders during the year. The board of Directors of the Bank (the "Board") has recommended the payment of a final cash dividend for the year ended 31 December 2021 of HK$260,000,000 (2020: HK$223,758,000).

FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2021 and for the last four financial years is set out on pages 2 and 3 of this Annual Report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Bank as at 31 December 2021, calculated under the provisions of sections 291, 297 and 299 of the Companies Ordinance, amounted to HK$9,711,817,000 (2020: HK$9,055,117,000).

SHARES ISSUED

During the year, a total of 336,127 ordinary shares of the Bank were issued. Details of the issued share capital of the Bank during the year ended 31 December 2021 are set out in note 30 to the consolidated financial statements.

DEBENTURES ISSUED

There was no debentures issued by the Bank during the year.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Bank during the year and up to the date of this report are:

EXECUTIVE DIRECTORS

Mr ZONG Jianxin *(Deputy Chairman and Chief Executive)*
Mr LAU Wai Man *(Deputy Chief Executive)*

NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing *(Chairman)*
Mr LI Feng
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo
Mr LEE Ka Lun
Mr YU Lup Fat Joseph
Mr MA Chiu Cheung Andrew (Retired at the conclusion of the annual general meeting of the Bank held on 14 May 2021)

There being no provisions in the articles of association of the Bank for the retirement of directors of the Bank by rotation and accordingly, all the existing directors of the Bank shall continue in office for the ensuing year.

DIRECTORS OF SUBSIDIARIES

Listed below are the names of all the directors who have served on the boards of directors of the Bank's subsidiaries during the year and up to the date of this report:

Mr ZONG Jianxin
Mr LAU Wai Man
Mr CHOW Cheuk Yu Alfred
Mr CHENG Yuk Wo
Mr YU Lup Fat Joseph(1)
Mr MA Chiu Cheung Andrew(2)
Mr CHAN Kam Ki Vincent
Mr CHAN Man Mei
Mr CHAN Tai On
Mr CHIU Tak Wah Edward
Mr CHU Shiu Man
Mr CHUN Ka Wing
Mr LEUNG Chan Keung
Mr MA Wai Leung
Mr SEI Wing Keen
Mr WONG Wan Hong
Mr WOO Pak Kin Clement

Notes:

(1) Appointed as a Director of the relevant subsidiary of the Bank with effect from 1 May 2021.

(2) Retired as a Director of the relevant subsidiary of the Bank at the conclusion of the annual general meeting of the Bank held on 14 May 2021.

A list of names of all the directors who have served on the boards of directors of the subsidiaries of the Bank during the year ended 31 December 2021 and up to the date of this report is available on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

During the year, the Bank entered into transactions with the Bank's directors and their associates. Such transactions included but not limited to cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services, which were conducted on normal commercial terms and in the ordinary and usual course of business of the Bank.

Save as disclosed above, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against any liability (to the extent permitted by the Companies Ordinance) incurred by them or any of them as the holder of any such office or appointment to a person other than the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries. The Bank has taken out insurance against any liability associated with defending any proceedings which may be brought against the Directors and other officers of the Bank.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and in the sections headed "EQUITY-LINKED AGREEMENTS" in this report and "SHARE BASED PAYMENT" in note 33 to the consolidated financial statements, at no time during the year ended 31 December 2021, was the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save as disclosed below and "SHARE BASED PAYMENT" in note 33 to the consolidated financial statements, no equity-linked agreements was entered into by the Bank during the year or subsisted at the end of the year.

The Bank operates two equity-settled share-based compensation schemes including a share option scheme (the "Share Option Scheme") and a share award scheme (the "Share Award Scheme"). Details of which are set out in the paragraphs below.

SHARE OPTION SCHEME

The Bank has no outstanding share options at the beginning and at the end of the year. During the year, no share options have been granted under the Share Option Scheme adopted by the Bank pursuant to a resolution passed on 9 May 2012 and there is no change in any terms of the Share Option Scheme. Details of the Share Option Scheme are set out in note 33 to the consolidated financial statements.

DIRECTORS' REPORT

SHARE AWARD SCHEME

The Bank adopted the Share Award Scheme on 27 February 2020 (the "Adoption Date") and, subject to any early termination as may be determined by the Board pursuant to the rules governing the Share Award Scheme adopted by the Board, as amended from time to time (the "Scheme Rules"), shall be valid and effective for a term of 10 years commencing on the Adoption Date.

The specific objectives of the Share Award Scheme are (i) to synchronize the employees' perspectives with shareholders through continuous shares incentives; (ii) to ensure that the interests returned to the employees in key positions are related to the shareholders; (iii) to attract the right talents for promoting the future development of the Group; (iv) to reduce the turnover of the employees in key positions, to strengthen the Group's performance; and (v) to reward the employees who have made outstanding contributions in driving the continuous business operation and development of the Group.

Pursuant to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any eligible participant(s) to participate in the Share Award Scheme as selected employee(s) and to grant the award shares, and determine the amount of award shares to be awarded as well as the terms and conditions to be complied with by any selected employee. A selected employee shall be entitled to receive the new shares of the Bank on the vesting dates in accordance with vesting schedule and upon the selected employee has satisfied all other vesting conditions as determined by the Board in its absolute discretion, if any.

According to the Scheme Rules, the award shares shall be vested in four tranches of which 25% of the award shares shall be vested in each of the first, the second, the third and the fourth calendar year of continuous service with the Group after the grant date.

The Board shall not make any further grant of award shares under the Share Award Scheme such that the total number of award shares granted under the Share Award Scheme will not exceed 10% of the total number of issued shares of the Bank as at the grant date. During the year ended 31 December 2021, a total of 555,685 award shares were granted under the Share Award Scheme and 92,634 award shares had been forfeited before vesting. 336,126 award shares were vested during the year. Further details of the Share Award Scheme are set out in note 33 to the consolidated financial statements.

MANAGEMENT CONTRACTS

Save for the service contracts, no other contracts concerning the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$76,690 (2020: HK$149,000).

CORPORATE GOVERNANCE

Details of the corporate governance practices of the Bank are set out in the "Corporate Governance Report" in this Annual Report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting of the Bank.

On behalf of the Board

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

Hong Kong, 31 March 2022

CORPORATE GOVERNANCE REPORT

as of 31 March 2022

CORPORATE GOVERNANCE PRACTICES

Chong Hing Bank Limited (the "Bank") is an authorized institution supervised by the Hong Kong Monetary Authority (the "HKMA") under the Hong Kong Banking Ordinance (the "Banking Ordinance"). The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders.

The Bank has applied the principles in the module on "Corporate Governance of Locally Incorporated Authorized Institutions" ("CG-1") under the Supervisory Policy Manual ("SPM") issued by the HKMA and the principles in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited prior to the withdrawal of the listing of the Bank's shares on The Stock Exchange of Hong Kong Limited to its corporate governance structure and practices.

BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The board of Directors of the Bank (the "Board") is ultimately responsible for the sustainable performance of the Bank and its subsidiaries (the "Group"), including the consistent achievement of business plans and compliance with statutory and corporate obligations. It is the ultimate decision-making body for all matters considered material to the Group and operates under defined terms of reference. The Board is also responsible for laying down strategic directions of the Group and overseeing their implementation by senior management, reviewing the operational and financial performance, and providing oversight to ensure that effective systems of risk management and internal control of the Group are in place. In addition, the Board also plays a leading role in establishing the Group's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers.

While the Board delegates the day-to-day management of the Group's business to senior management, specific matters are reserved for the Board's consideration and decision under its terms of reference including, but not limited to, the Group's long-term objectives and strategies, annual business plan and budget, capital planning and management policies, annual and interim financial reporting, major capital projects and investments, major acquisitions and disposals, overall risk management strategy and framework, share award scheme adopted by the Bank, oversee and lead the formulation of the Group's development strategies and goals of environmental, social and governance ("ESG") (including, without limitation, climate change, green and sustainable banking) as well as the governance framework of its related risk management functions and other significant ESG related issues, and corporate governance matters covering the development, implementation and monitoring of the corporate governance policies and practices.

During the year, the Board conducted a robust review of the Group's corporate governance framework and updated its terms of reference and other Board Committees' terms of reference to reflect best practices. The Board also adopted various policies as recommended by the Risk Committee, Nomination and Remuneration Committee and Executive Committee and reviewed the Bank's compliance with the SPMs issued by the HKMA including the necessary disclosures in its reports.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive of the Bank are separate, with a clear division of responsibilities as set out in the Board's terms of reference.

The Chairman of the Board, who is a Non-executive Director, is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman also ensures that all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive, who is an Executive Director, leading the Group's management, is accountable to the Board for the overall implementation of the Bank's objectives, policies, major strategies and initiatives adopted by the Board. With the support of other Executive Director and senior management, he is also in charge of all day-to-day operations and administration, within the framework of the Group's policies, reserved powers and routine reporting requirements.

BOARD COMPOSITION

As of 31 December 2021, there are nine Board members comprising two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. There is a strong independent element on the Board that ensures the independence and objectivity of the decisions of the Board, as well as the thoroughness and impartiality of the Board's oversight of the management.

The composition of the Board is well balanced with each Director having sound board level experience and a diverse range of business, banking and professional expertise relevant to the business operations and development of the Group. Biographies of the Directors and relevant relationships (including financial, business, family or other material relationship) among the Directors and senior management of the Bank are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 6 to 12 of this Annual Report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Bank adopts a formal procedure in the selection of new Directors.

The Nomination and Remuneration Committee identifies individual(s) suitably qualified to become director(s), having due regard to the strategic needs of the Bank and succession planning of the Board. The prospective director will first be assessed by the Nomination and Remuneration Committee, taking into account the balance of skills, knowledge, experience and diversity on the Board. Upon receiving the recommendation from the Nomination and Remuneration Committee, the proposed appointment will be considered and approved by the Board after due deliberation.

In accordance with the requirement under the Banking Ordinance, approval from the HKMA will be obtained for the appointment of new Directors.

CORPORATE GOVERNANCE REPORT

as of 31 March 2022

BOARD PROCESS

Board meetings shall be held at least four times a year and no less than once every quarter. Additional Board meetings will be held as and when warranted.

Notice of meetings will be given to all Directors at least 14 days before each regular meeting to give them an opportunity to include matters for discussion in the agenda. Meeting agenda and accompanying Board papers are normally sent to all Directors at least a week before the intended date of a Board meeting.

The Board has a standing agenda of items to ensure that matters relating to overall strategies, business plans, interim and annual results, corporate governance review, risk management and compliance are covered in its meetings at appropriate intervals.

Apart from those regular financial and business performance reports submitted to the Board for deliberation at the regular meetings, the management provides monthly updates to the Board members with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their responsibilities. Management also submits to the Board members regular reports regarding auditor's and regulators' findings and recommendations as well as loans and advances to connected parties for regular review and monitoring, where appropriate.

During the year, there were eight Board meetings, all of which were convened in accordance with the Articles of Association and attended by the Directors either in person or through electronic means of communication. In addition to the formal Board meetings, the Chairman has regular communications with Directors, occasionally without the presence of the Executive Directors and senior management, to consider issues in an informal setting. During 2021, the Chairman held a meeting that was attended only by Independent Non-executive Directors.

During the year, the Board also had a telephone conference with the representatives of HKMA to maintain a regular dialogue with the regulator where HKMA shared with the Board about HKMA's overall supervisory assessment of the Bank and their key supervisory focuses on the banking industry in general.

All Directors are entitled to have access to board papers and related materials. Where queries are raised by Directors, steps will be taken to respond as promptly and fully as possible. Any concerns raised or dissenting views expressed by the Directors in respect of any matter discussed at a Board meeting will be reflected clearly in the minutes. Full minutes are being kept by the Company Secretary and such minutes are open for inspection at any time during office hours on reasonable notice by any Director.

All Directors are entitled to seek independent professional advice for the purpose of discharging their duties at the Bank's expense.

All Directors have devoted sufficient time and attention to the affairs of the Bank.

The Bank has put in place procedures to deal with Directors' conflict of interest. Directors are required to declare their direct/indirect interests, if any, in any proposed transactions to be considered by the Board and, where appropriate, they should abstain from voting on the proposed transactions and should not be counted in the quorum.

Appropriate Directors' and Officers' liability insurance cover has been arranged to indemnify the Directors and Officers against liabilities arising out of corporate activities. The coverage and the sum insured for 2021/2022 was reviewed and renewed.

CORPORATE GOVERNANCE REPORT

as of 31 March 2022

ATTENDANCE RECORDS

The attendance records of individual Directors at the Board, Board Committee meetings and general meetings held in 2021 are as follows:

	2021 Number of Meetings Attended/Required Meetings to Attend							
Names of Directors	Board	Audit Committee	Connected Party Transactions Committee	Executive Committee	Nomination and Remuneration Committee	Risk Committee	Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee)	General Meetings
Chairman and Non-executive Director								
Mr ZHANG Zhaoxing	6/8	-	-	-	2/3	-	-	0/2
Executive Directors								
Mr ZONG Jianxin	7/8	-	-	13/15	-	-	4/4	2/2
Mr LAU Wai Man	8/8	-	-	15/15	-	-	4/4	2/2
Non-executive Directors								
Mr LI Feng	7/8	-	-	-	-	4/4	4/4	2/2
Mr CHOW Cheuk Yu Alfred	8/8	4/4	Nil(1)	-	3/3	-	-	2/2
Ms CHEN Jing	7/8	4/4	-	-	-	-	-	2/2
Independent Non-executive Directors								
Mr CHENG Yuk Wo	8/8	4/4	Nil(1)	-	3/3	4/4	-	2/2
Mr LEE Ka Lun	8/8	4/4	-	-	3/3	4/4	4/4	2/2
Mr YU Lup Fat Joseph	7/8	4/4	-	-	3/3	4/4	-	2/2
Mr MA Chiu Cheung Andrew(2)	2/2	-	Nil(1)	-	1/1	-	-	1/2

Notes:

(1) During the year, the Connected Party Transactions Committee has, by way of written resolutions, reviewed and recommended to the Board for approval of various connected transactions of the Group.

(2) Mr MA Chiu Cheung Andrew retired as an Independent Non-executive Director of the Bank at the conclusion of the annual general meeting of the Bank held on 14 May 2021.

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BOARD EFFECTIVENESS

During the year ended 31 December 2021, the Board conducted an annual review of its effectiveness by way of an evaluation survey (the "Survey") and received responses from all Directors. The scope of the Survey required Directors to consider the performance and effectiveness of the Board and its Board Committees including the composition, structure, dynamics, operation and diversity. The overall feedback was positive and encouraging. The evaluation revealed that the Board and all the Board Committees continue to perform well with a strong composition and operate to a high standard.

INDUCTION AND ONGOING DEVELOPMENT

The Bank provides each Director with personalized induction, training and development. On appointment, each new Director receives a comprehensive and tailored induction covering, among others, information about the Group's operations and business, the roles and responsibilities of the Board and its key Board Committees, the Bank's governance structure and practices, and the ambit of the internal audit and risk management functions.

On an ongoing basis, all Directors are provided with briefings and trainings in order to keep them continually updated on the Group's business and the latest developments of applicable laws, rules and regulations to ensure the continued enhancement of their knowledge and skills. Such briefings and trainings are provided at the Bank's expense.

During the year, the Bank had organized a one day of "Board Strategy Meeting" and had provided a number of trainings and briefings to the Directors which covered topics on the Bank's corporate culture, latest governance and regulatory updates and risk management.

All Directors are required to provide their training records to the Bank on an annual basis. The training received by the Directors during the year under review is summarized as follows:

Names of Directors	Regulatory Updates	Articles/Seminars/ Conferences relevant to the Bank's business and corporate governance
Chairman and Non-executive Director		
Mr ZHANG Zhaoxing	✓	✓
Executive Directors		
Mr ZONG Jianxin	✓	✓
Mr LAU Wai Man	✓	✓
Non-executive Directors		
Mr LI Feng	✓	✓
Mr CHOW Cheuk Yu Alfred	✓	✓
Ms CHEN Jing	✓	✓
Independent Non-executive Directors		
Mr CHENG Yuk Wo	✓	✓
Mr LEE Ka Lun	✓	✓
Mr YU Lup Fat Joseph	✓	✓
Mr MA Chiu Cheung Andrew[(1)]	✓	✓

Note:

(1) Mr MA Chiu Cheung Andrew retired as an Independent Non-executive Director of the Bank at the conclusion of the annual general meeting of the Bank held on 14 May 2021.

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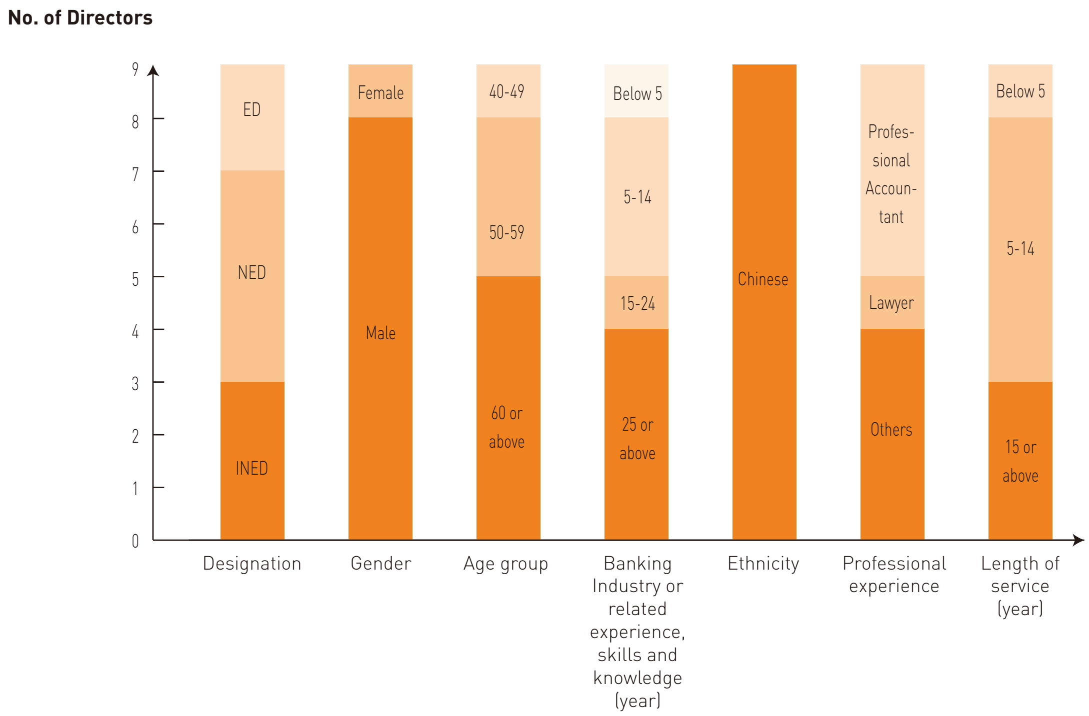
POLICY STATEMENT ON BOARD DIVERSITY

The Bank recognizes and embraces the benefits of having a Board composed of a diverse range of experience, which is an essential element in supporting the attainment of the Bank's strategic objectives and achieving sustainable commercial success of the Bank.

Board diversity has been considered from various aspects in designing the Board's composition, including gender, age, cultural and educational background, industry or related experience, ethnicity, professional experience, skills, knowledge and length of service (the "Diversity Aspects"). All Board members' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. During the year, the Nomination and Remuneration Committee had reviewed the Board diversity based on the Diversity Aspects and considered that it had a balanced diversity. As at 31 December 2021, the composition of the Board was as follows:



The diverse culture helps promote critical thinking and foster constructive debate, thereby enabling the Board to provide strategic direction to the management and to ensure the decision-making process is fair and balanced. All of these are essential in achieving a sustainable and balanced development of the Group.

This policy statement is not intended to, and does not, either enlarge or diminish the responsibilities of the Directors under the Articles of Association and such other relevant laws, rules, regulations, codes, guidelines, practice notes, circulars and the like. This policy statement is, however, intended to serve as a source of guiding principles for Directors to take appropriate actions to achieve the aims of board diversity as outlined above. The Board will review and, where appropriate, revise from time to time this policy statement in light of experience, evolving standards of corporate governance and any other changing circumstances.

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring the Board policies and procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and Management.

The Company Secretary's biography is set out in the "Biographical Details of Directors and Senior Management" section on page 12 of this Annual Report. During the year of 2021, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

BOARD COMMITTEES

The Board has delegated its authorities to various committees, namely the Audit Committee, the Connected Party Transactions Committee, the Executive Committee, the Nomination and Remuneration Committee, the Risk Committee and the Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) which operate under defined Terms of Reference. Composition and Terms of Reference of the Board Committees are reviewed and updated regularly by the Board to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

Terms of Reference of the respective Board Committees are available on the website of the Bank. Each Board Committee has been provided with sufficient resources to discharge its duties.

AUDIT COMMITTEE

The Audit Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Audit Committee is required, among other things, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards, to review any engagement of external auditor for the provision of non-audit services, to review the half-year and annual reports and accounts before submission to the Board, to receive audit reports and review the external auditor's management letter, to review audit and/or investigation reports submitted by the Chief Auditor, to review the HKMA's on-site examination reports and bring major findings to the attention of the Board, and to assess and consider the adequacy and effectiveness of the Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance.

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Four committee meetings were held in 2021 and the attendance records of the Audit Committee members are set out on page 47 of this Annual Report. The major work performed by the Audit Committee during the year included:

(i) met with the external auditor and the Bank's senior executives in charge of Finance and Capital Management function to discuss the financial statements for the year ended 31 December 2020 and for the six months ended 30 June 2021;

(ii) reviewed and discussed with the external auditor to ensure that the Group's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong;

(iii) reviewed the re-appointment of the Bank's external auditor, including its independence and objectivity, and the scope of audit services;

(iv) reviewed the audit fees payable to the external auditor and recommended to the Board for approval, and reviewed the annual non-audit services provided by the external auditor to the Group and the related fees;

(v) reviewed the external auditor's audit strategy and plan of the Group for the year of 2021, work progress of audit work and the assessment of the sufficiency of the internal control of the Group for the year of 2020;

(vi) reviewed the report for the year 2020 and the report for the six months ended 30 June 2021 issued from the external auditor to the Audit Committee;

(vii) reviewed the report of internal audit;

(viii) reviewed the internal control issues and the internal audit function of the Group, covering the annual internal audit plan, revision on the amendment of internal audit procedure, staffing, resources and performance of Internal Audit Division, audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations;

(ix) approved the internal audit plan for 2021;

(x) reviewed the revision of the Disclosure Policy of the Bank;

(xi) reviewed and adopted the report provided by external quality independent assurance consultant on the effectiveness of the internal audit function;

(xii) approved the revised Internal Audit Policy and recommended amendments to its Terms of Reference to the Board for approval;

(xiii) reviewed the progress of the independent audit investigation on the non-performing loan and key findings result;

(xiv) reviewed the Bank's progress for the implementation and rectification of the new impairment plan of HKFRS 9 (Financial Instruments); and

(xv) reviewed the structure, scope of work, qualification and experience of employee and employee's training course of the Bank's Finance and Capital Management Division, and confirmed that the Bank has sufficient resources in accounting and financial reporting to deal with the daily work.

REVIEW OF FINANCIAL RESULTS

The Audit Committee had reviewed the Group's financial statements for the year ended 31 December 2021 in conjunction with the Bank's external auditor. Based on this review and discussions with the Management, the Audit Committee was satisfied that the Group's financial statements for the year ended 31 December 2021 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2021. The Audit Committee therefore recommended the Group's financial statements for the year ended 31 December 2021 be approved by the Board.

CONNECTED PARTY TRANSACTIONS COMMITTEE

The Connected Party Transactions Committee currently consists of four members, including one Independent Non-executive Director, one Non-executive Director, the Chief Financial Officer and the Chief Risk Officer of the Bank.

Under its Terms of Reference, the Connected Party Transactions Committee is responsible for reviewing the robustness of the Bank's control framework to ensure proper compliance with all legal and regulatory requirements together with accounting requirements (promulgated in Hong Kong and other jurisdictions) as may be applicable and approving significant connected transactions.

During the year, no physical committee meeting was held while the Connected Party Transactions Committee, by written resolutions, had reviewed and recommended to the Board for approval of various connected transactions between the Group and the members of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*), including the granting of credits and loans and the renewal of lease Agreement.

* *for identification purpose only*

EXECUTIVE COMMITTEE

The Executive Committee currently consists of nine members, including two Executive Directors and other senior executives of the Bank.

The Executive Committee exercises its powers, authorities and discretions as delegated by the Board to manage the day-to-day operations of the Group in accordance with its Terms of Reference and such other policies and directives as the Board may determine from time to time. The Executive Committee demonstrates its commitment and conviction in implementation of proper bank culture and values at all level of the Group, sets appropriate "tone from the top" and leads by example.

The Executive Committee has established the Asset and Liability Management Committee, the Expenses Control Committee, the New Product Approval Committee, the Disciplinary Committee, the Information Technology Committee, the Risk Management Committee, IT Project Steering Committee and the Interest Rate Benchmarks Reform Project Steering Committee with defined Terms of Reference that are in line with best practices. The above specialized sub-committees report directly to the Executive Committee and are responsible for overseeing assets and liabilities management, expenses control, approval of new products and services, staff disciplinary-related issues, overall information technology strategy, major risk and compliance issues as well as specific projects of the Group.

15 Executive Committee meetings were held in 2021 and the attendance records of the Executive Directors are set out on page 47 of this Annual Report.

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NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Authority and Responsibility

Under its Terms of Reference, the Nomination and Remuneration Committee is responsible for, among others, reviewing and making recommendations to the Board on the structure, size and composition of the Board; identifying potential candidate suitably qualified to become director of the Bank; making recommendation and reviewing the Remuneration Policy of the Group by taking into account the pay and conditions across the Group's individual remuneration packages for Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Group's risk profile; ensuring that the remuneration frameworks and decisions shall be developed in a manner that is in line with the Group's risk appetite, risk culture and long-term interests; ensuring that no individual Director, Chief Executive or any of their associates will be involved in deciding his/her own remuneration; and assisting the Board in carrying out the Bank's Corporate Culture-related duties.

Remuneration Structure

The remuneration system of the Group is composed mainly of fixed remuneration (cash-based) with performance based variable remuneration (cash-based discretionary bonus and/or other incentives (where applicable)) which does not only conform with the risk appetite, align with the long-term value creation and time horizons of risk of the Group to grow steadily and prudently by encouraging long-term performance rather than short-term risk taking, but also motivates, recognizes and rewards both outstanding individual contribution, sound team performance and positive behaviors. The proportion and amount of fixed and variable remuneration shall vary according to an employee's seniority, role, responsibilities and activities within the Group, also the market benchmarking and trend.

Performance Management

The Group uses a Balanced Scorecard ("Scorecard") approach to measure and manage performance at the levels of the Group, business/functional units and individual employees. With reference to corporate goals and objectives at the beginning of financial year and when necessary, the Nomination and Remuneration Committee reviews the Key Performance Indicators ("KPIs") and the corresponding target levels of the Group and recommends to the Board for approval. The targets of the Group will be cascaded down under the Scorecard Framework whereby the performance would be assessed from the four key quadrants of "financial", "customer", "internal process" and "people management".

Each key quadrant of the Scorecard is comprised of a set of KPIs to assess the performance according to the specific areas of responsibility of the Group, business/functional units and individual employees; both financial and non-financial performance indicators are required to ensure a balanced evaluation. To ensure independence, financial KPIs should not be applicable to those risk control unit/personnel whose performance should be evaluated by their performance objectives and independent of the performance of the business areas which they oversee.

To put the principle of aligning performance and remuneration with risk into practice, on top of the mentioned KPIs, a "Compliance and Risk Control" dimension is in place in the Scorecard to take into account any risk factors, control, ethics and compliance event, also its severity and impact to be fully reflected on the performance rating of the Group, business/functional units and individual employees.

In respect of risk management, the Bank has developed a complete Risk Appetite Statement and Key Risk Indicators as the basis for monitoring, assessing and controlling the Group's risk profile. In the Risk Modifier Framework of the Corporate Scorecard for 2021, seven major areas including credit risk, liquidity risk, market risk, operational risk, information technological risk, compliance risk and risk culture are taken into account as a Corporate Scorecard Risk Modifier.

The Compliance and Risk Control assessment at individual level covers the employee's compliance, risk control and ethical standard. This includes, but is not limited to, the performance of the assessed employee in controlling various risks (e.g. credit, compliance, operations and reputation, etc.), the risk management ratings, compliance reports or audit reports related to the performance of the assessed employee, verbal or written warnings (e.g. misconduct), etc.

Compliance and Risk Control Modifier can be applied to adjust the annual performance score in response to any relevant performance. Poor performance can result in a deduction of the total performance score, which in turn affects the magnitude and amount of variable remuneration.

Under the current performance management system, apart from evaluating individuals' KPIs in the Scorecard, there is a separate assessment of adherence to "Corporate Culture and Values". The assessment indicators are designed and matched with reference to the Group's "Management Concepts" and "Enterprise Spirit" and the six "Core Competencies" and their related behavioral indicators, so as to ensure employees and appraising managers clearly understand the required behaviors and attitude to achieve the defined corporate culture and core values of the Group.

The final performance rating of the staff (including the "Balanced Scorecard" and "Corporate Culture and Values") will be a major consideration factor of their salary review and variable remuneration (if applicable).

Award of Variable Remuneration

The Bank's variable remuneration structure consists of cash-based discretionary bonus and/or other incentives (where applicable).

The size of the overall variable remuneration pool of the Group is determined according to the compliance/risk adjusted performance of the Group together with the consideration of all necessary factors (including capital position, market and peers business conditions, market competitiveness, material or potential risks involved in the business, and the extent to which the risks affect the Group as a whole), as recommended by the Nomination and Remuneration Committee to the Board for approval and is subject to the Board's discretion.

The subsequent allocated quota of variable remuneration to each business/functional unit is based on the overall performance of the relevant business/functional unit; while the performance assessment of the employees is based on the final compliance/risk-adjusted performance rating in the individual Scorecard and the Corporate Culture and Values rating.

Poor performance (either financial or non-financial) will result in a reduction or elimination of discretionary variable remuneration at any level. Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements. The overall performance of a business/functional unit or an individual employee could be thoroughly assessed (taking into account compliance and risk factors), rather than solely relying on its/his/her financial performance. This ultimately helps mitigating the Group's risk exposure and aligns with its long-term value creation.

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To ensure independence, the variable remuneration of risk control personnel is determined in accordance with their performance objectives and commensurate with their key role in the Group. To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business unit which they oversee.

Termination of Share Award Scheme

The purpose of the Share Award Scheme adopted on 27 February 2020 was to award Shares that are listed on the Stock Exchange as an incentive to eligible employees of the Group. Since Yue Xiu Enterprises (Holdings) Limited (as the Offeror, "YX Enterprises") put forward a proposal for the privatisation of the Bank by way of a scheme of arrangement (the "Scheme") under section 673 of the Companies Ordinance, pursuant to Rule 13 of the Takeovers Code, YX Enterprises had made the share award offer (the "Share Award Offer") to each outstanding share award holder to cancel all his/her outstanding share award(s) in exchange for the payment by YX Enterprises to such outstanding share award holder of the share award offer price of HK$20.80 (the "Share Award Offer Price") in cash for each such outstanding share award cancelled. Under the Share Award Offer, the Share Award Offer Price will, upon the satisfaction of the relevant vesting and other conditions as set out in the rules of the Share Award Scheme and/or as specified by the Board, and subject to the compliance with the rules of the Share Award Scheme, be paid to each outstanding share award holder on a staggered basis in accordance with the existing vesting schedule of the outstanding share award(s) held by such outstanding share award holder. On 27 September 2021, YX Enterprises completed its privatisation process of the Bank, and the listing of the shares of the Bank on the Main Board of the Stock Exchange had been withdrawn on 30 September 2021. The Board exercised its discretion to terminate the Share Award Scheme with effect from 22 October 2021 and cancel any share awards which remain outstanding following such effective date in accordance with the terms and conditions of the Share Award Scheme.

Deferral Arrangements

The award of variable remuneration to employee is subject to deferment in such a manner as determined by the Nomination and Remuneration Committee. Deferral of the payment of a portion of variable remuneration will allow employees' performance, including the associated risks, to be observed and validated over a period of time before the payment is actually made. Generally, the proportion of variable remuneration made subject to deferment would increase with the employee's seniority and responsibility in the Bank. The portion of variable remuneration subject to deferment is determined by a pre-defined percentage of their variable remuneration or a pre-defined deferral threshold. Deferral period can last for 3 years the longest.

The award of deferred portion is subject to a minimum vesting period and pre-defined vesting conditions as determined by the Nomination and Remuneration Committee and communicated to all relevant employees. Deferred portion is awarded in such a manner so as to align the relevant employees' variable awards with long-term value creation and the time horizons of risk. The future performance (both financial and non-financial) of the Group, relevant business/functional units, and individual employees is taken into consideration when approving the vesting arrangement. In circumstances where it is later established that any performance measurement for a pre-defined year was based on data that is later proven to have been manifestly misstated or based on erroneous assumptions, or it is later established that the relevant employee has committed fraud, malfeasance, or a violation of internal control policies or legal requirements, all or part of the unvested portions of the deferred variable portion (relating to that particular year in question) should be forgone (i.e. malus), and claw-back of all or part of the variable remuneration may also be applied.

External Remuneration Consultant

The Nomination and Remuneration Committee is authorised by the Board to seek professional advice as it deems appropriate and is responsible for the selection and appointment of consultants to advise it on all aspects of remuneration.

PricewaterhouseCoopers (PwC) had been appointed by the Group to conduct an independent review of the remuneration system and practices of the Group for 2020 against "Guideline on a Sound Remuneration System" ("CG-5") under the SPM issued by the HKMA.

Summary of Work

Three committee meetings were held in 2021 and the attendance records of the Nomination and Remuneration Committee members are set out on page 47 of this Annual Report. The major works performed by the Nomination and Remuneration Committee during the year included:

(i) made recommendation to the Board on the extension of the employment contract of Mr Lau Wai Man as Executive Director and Deputy Chief Executive of the Bank and his retirement age;

(ii) made recommendation to the Board on the appointment of the Head of Human Resources Division of the Bank;

(iii) reviewed the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and its committees and made recommendations to the Board;

(iv) reviewed the efficiency and effectiveness of the functioning of the Board and its committees;

(v) assessed and confirmed the independence of the Independent Non-executive Directors of the Bank;

(vi) made recommendation on the nomination of Directors for the Board to recommend to the Shareholders for re-election at the annual general meeting held on 14 May 2021 ("2021 AGM");

(vii) approved the updated Senior Management and Key Personnel Succession Policy and reported to the Board;

(viii) reviewed the salary adjustment proposal for 2021 and the variable remuneration for 2020 for the Executive Directors, Senior Management and Key Personnel, and recommended to the Board;

(ix) proposed the remuneration packages for a number of Key Personnel, and recommended to the Board;

(x) reviewed the Bank's variable remuneration budget proposal for 2021 and recommended to the Board;

(xi) reviewed the Bank-level 2018 and 2019 deferred cash bonus vesting arrangement and recommended to the Board;

(xii) reviewed the Director's fee proposal of the Chairman and members of the Board and all of the other Board Committees and recommended to the Board;

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(xiii) reviewed the performance indicators of the Corporate Balanced Scorecard of the Bank for 2021 and 2022 and the estimated achievement of targets for 2021; reviewed the proposal for the 2021 discretionary variable remuneration pool and Mainland relationship managers' incentive framework and recommended to the Board;

(xiv) reviewed the Bank-level 2021 and 2022 salary review proposals and recommended to the Board;

(xv) reviewed the update of the Share Award Scheme and the proposed list of eligible participants under the Scheme for 2020 and recommended to the Board; also reviewed and confirmed the vesting arrangement for the Scheme for 2019 and reported to the Board;

(xvi) reviewed the proposal of the「開門紅」incentive plan for 2022 and recommended to the Board;

(xvii) reviewed the update of the Remuneration Policy and its appendix with regards to the latest CG-5 under the SPM issued by the HKMA in July 2021 and the termination of the Share Award Scheme and recommended to the Board;

(xviii) reviewed and updated its Terms of Reference and recommended to the Board;

(xix) received the report on Independent Review of the Group for 2020 against CG-5 by PwC; and

(xx) reviewed the progress updates and the implementation of Chong Hing Bank Corporate Culture and reported to the Board.

The Remuneration Policy of the Group aims to remunerate employees in a manner that supports the achievement of the Group's mission, vision and strategic objectives whilst attracting and retaining scarce skills and rewarding high levels of performance. In accordance with the latest CG-5, the Nomination and Remuneration Committee has reviewed and endorsed the Remuneration Policy of 2021, including the reassessment of the principles applied in determining the remuneration package and structure, the major changes were to further align with the latest requirements as stipulated in the CG-5. The emolument payable to the Directors will depend on their respective contractual terms under employment contracts, if any, and the recommendations made by the Nomination and Remuneration Committee. Details of the Directors' emolument are set out in note 41 to the Consolidated Financial Statements. According to the CG-5 and the Remuneration Policy of the Group, Senior Management refers to Executive Directors, Chief Executive, Deputy Chief Executives, and individual positions who are responsible for oversight of the group-wide strategy or activities or those of the Group's material business lines; Key Personnel refers to individual positions whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the Group. There are currently 11 and 7 employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2020 and 2021 are shown in the tables below in accordance with the disclosure requirement under CG-5.

The remuneration for the Senior Management and Key Personnel for the years ended 31 December 2020 and 2021 is as follows:

Remuneration Amount and Quantitative Information (HK$'000)	2021	2020
Senior Management		
Fixed Remuneration		
Number of employees	**12**	7
Total fixed remuneration	**45,700**	33,278
Of which: cash	***45,700***	*33,278*
Variable Remuneration		
Number of employees	**11**	7
Total variable remuneration	**9,142**	7,347
Of which: cash	***9,142***	*3,455*
Of which: deferred	***3,657***	–
Of which: shares	***N/A***	*3,892*
Of which: deferred	***N/A***	*3,892*
Total Remuneration	**54,842**	40,625
Key Personnel		
Fixed Remuneration		
Number of employees	**9**	14
Total fixed remuneration	**20,392**	32,052
Of which: cash	***20,392***	*32,052*
Variable Remuneration		
Number of employees	**7**	11
Total variable remuneration	**7,028**	10,456
Of which: cash	***7,028***	*5,320*
Of which: deferred	***1,406***	*659*
Of which: shares	***N/A***	*5,136*
Of which: deferred	***N/A***	*5,136*
Total Remuneration	**27,420**	42,508

Remarks:

(1) There were five positions changed the category from Key Personnel to Senior Management in 2021.

(2) The above disclosed figure of deferred shares of variable remuneration for 2020 of Key Personnel includes the shares grant to two former Key Personnel who left the Group in September and December 2020.

(3) In 2021, there were deferred shares amounted to HK$1,324,000 and HK$1,281,000 granted to Senior Management and Key Personnel respectively; and deferred shares of 2020 amounted to HK$1,469,000 and HK$809,000 vested for Senior Management and Key Personnel respectively. Both disclosed figures of Senior Management include the remuneration of a former Senior Management who left the Group in August 2021.

(4) Upon privatization and the withdrawal of the listing of shares of the Bank on the Stock Exchange, all outstanding award shares had been cancelled and each outstanding share award holder was entitled to receive the Share Award Offer Price of HK$20.80 for each such outstanding share award cancelled, upon the fulfilment of pre-defined vesting and other conditions as set out in the rules of the Share Award Scheme. The Board exercised its discretion to terminate the Share Award Scheme with effect from 22 October 2021 in accordance with the terms and conditions of the Share Award Scheme.

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Deferred and Retained Remuneration (HK$'000)	2021				
	Total amount of outstanding deferred remuneration	*Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment*	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior Management					
Cash	–	–	–	–	–
Key Personnel					
Cash	1,139	1,139	–	–	1,139
Total	1,139	1,139	–	–	1,139

Deferred and Retained Remuneration (HK$'000)	2020				
	Total amount of outstanding deferred remuneration	*Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment*	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior Management					
Cash	876	876	–	–	876
Key Personnel					
Cash	2,493	2,493	–	–	2,493
Total	3,369	3,369	–	–	3,369

Remarks:

(1) The above disclosed figure of paid deferred cash bonus for 2020 of Senior Management relates to 2019 variable remuneration and includes the paid amount of a former Senior Management who left the Group in January 2020.

(2) The above disclosed figure of paid deferred cash bonus for 2020 of Key Personnel relates to 2018 and 2019 variable remuneration and the figure of paid deferred cash bonus for 2021 of Key Personnel relates to 2020 variable remuneration.

Special Payments (HK$'000)	2021	2020
Total amount of Guaranteed Bonuses	–	–
Number of employees	–	–
Total amount of Sign-on Awards	760	–
Number of employees	1	–
Total amount of Severance Payments	–	–
Number of employees	–	–

Remarks:

As the number of Senior Management and Key Personnel involved in the above section is small, in order to avoid that individuals' figure could be deduced from disclosure of a breakdown of the figure, aggregate figures are disclosed.

The Nomination and Remuneration Committee will continue to review and enhance the Group's Remuneration Policy in accordance with the principles and spirit of CG-1, CG-5 and any other applicable SPM modules issued by the HKMA, with particular attention paid to risk adjustments to performance assessment; also alongside with the development of labor market, especially in the development of financial services sector, to evaluate and refine the remuneration provision of the Group so as to ensure that the rewards are competitive for the retention of talents.

RISK COMMITTEE

The Risk Committee currently consists of four members, including three Independent Non-executive Directors and one Non-executive Director.

Under its Terms of Reference, the Risk Committee is required, among other things, to advise the Board on the overall risk appetite/tolerance and risk management strategies of the Group, and to oversee senior management's implementation of those strategies that are established and approved by the Board and aligned with the Bank's overall business objectives. In performing its role, the Risk Committee is supported by the Bank's Risk Management Committee and its specialized sub-committees.

Four committee meetings were held in 2021 and the attendance records of the Risk Committee members are set out on page 47 of this Annual Report. The major duties performed by the Risk Committee during the year included:

(i) reviewed the overall risk management strategies and risk appetite/tolerance statement(s) of the Group and made recommendation to the Board for approval, and received regularly the risk level rating for each risk type;

(ii) reviewed and assessed regularly the adequacy and effectiveness of the Group's risk management framework, internal control systems and risk management policies, procedures and systems, and monitored their effective operation, implementation and maintenance;

(iii) monitored the implementation progress of the risk management module under the substantial upgrade of the Bank's information technology system;

(iv) monitored the implementation progress of the rectification measures taken by the Bank in response to the findings of the thematic examinations or meetings on risk-related matters conducted by the HKMA and China Banking and Insurance Regulatory Commission;

(v) reviewed the governance structure of the Bank;

(vi) approved the Stress Testing Policy, the Internal Stress-Test Methodology and the quarterly report of the stress-testing, and reviewed the Dividend Policy, the Capital Contingency Plan, the Recovery Plan, the Internal Capital Adequacy Assessment Process, the Liquidity Risk Management Policy, the Procedures Manual for Contingency Funding Plan, Group Exposure and Clustering Limit Policy, Compliance Policy, Business Continuity Planning Policy and the Policy for Counterparty Credit Risk Management of the Bank and made recommendation for the Board's approval;

(vii) reviewed the process updates of the risk culture related programmes of the Bank;

(viii) provided oversight on the independence of staff members responsible for implementing risk management systems and controls;

(ix) reported significant risk management issues to the Board as set out in its Terms of Reference; and

(x) reviewed its Terms of Reference and recommended amendments to the Board for approval.

During the year under review, the Risk Committee held meeting with the Bank's Chief Risk Officer without the Executive Directors present.

DIGITALIZATION STRATEGY COMMITTEE (FORMERLY KNOWN AS INFORMATION TECHNOLOGY STRATEGY COMMITTEE)

The Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) currently consists of four members, including one Independent Non-executive Director, one Non-executive Director and two Executive Directors of the Bank.

Under its Terms of Reference, the Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) is required, among other things, to advise the Board on the strategy ("Strategy") of information technology and to assist the Board in monitoring and evaluating the implementation and execution of the Strategy.

In 2021,the Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) held four committee meetings. The attendance records of the Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) members are set out on page 47 of this Annual Report. The major duties performed by the Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee) during the year included:

(i) Reviewed and oversaw the implementation progress of the Bank's new Core Banking System (Phase 2), the progress of the Bank's "14th Five-year" strategic plan and the development of information technology projects in 2021;

(ii) reviewed and discussed the assessment results of "Fintech 2025 – Tech Baseline Assessment" required by the HKMA, the Bank's strategic plan for information and Fintech for the next three years and made recommendations and reported to the Board;

(iii) Reviewed the Bank's report in relation to the information technology operation and production safety improvement;

(iv) reviewed the Bank's special budget for information technology projects in 2021, the work plan for the special budget for information technology projects in 2022 and made recommendations and reported to the Board;

(v) reviewed and discussed the cyber resilience plan and its budget and monitored its implementation on an ongoing basis; and

(vi) reviewed its Terms of Reference and recommended relevant amendments to the Board for approval.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, financial results and prospects to Shareholders and other stakeholders in a timely manner. The annual and interim results and other discloseable financial information of the Bank are published in accordance with the requirements of other applicable regulations and industry best practice.

Management provides the Board with sufficient explanation and information to enable it to make an informed assessment of the Group's financial and other information put before it for approval.

The Directors also receive monthly financial and business updates with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their duties and responsibilities.

The Directors acknowledge their responsibility for preparing the Bank's consolidated financial statements and ensuring that the preparation of the Bank's consolidated financial statements is in accordance with the relevant requirements and applicable standards. As at 31 December 2021, the Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified in its audit are set out in the "Independent Auditor's Report" on pages 66 to 73 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. Although such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss, the Bank is committed to establishing and maintaining appropriate and effective risk management and internal control systems so as to safeguard Shareholders' investment and the Bank's assets.

The Bank's risk governance framework is substantiated by the clearly defined three lines of defence which are independent from each other. In short, the first line of defence is provided by the business units where risks are taken. The second line of defence is provided by the risk management and compliance functions that are responsible for overseeing the Bank's risk-taking activities and ensuring compliance with laws and regulations. The third line of defence is provided by the Internal Audit Division which is responsible for providing assurance on the effectiveness of the Bank's risk management framework.

CORPORATE GOVERNANCE REPORT

as of 31 March 2022

The risk management and internal control systems of the Group comprise comprehensive policies and standards under a well-established organisational structure:

- Policies and procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; for ensuring the reliability of financial information used within the business or for publication; and for ensuring compliance with applicable laws, rules and regulations. Systems and procedures are also in place to identify, evaluate, manage and report on the major types of risks, including credit, liquidity, market, operational, legal and reputational risks. All these policies and systems are regularly reviewed to reflect changes in markets, products and best practices.

- Areas of responsibilities of each business/functional unit are clearly defined to ensure effective checks and balances. Each unit is responsible for the assessment of individual types of risks arising under its areas of responsibilities, the management of the risks in accordance with the established risk management procedures, and the reporting on such risk management issues.

- Specialised committees are established for the oversight and monitoring of major risk areas. Regular risk management reports prepared by relevant business and functional units are submitted to the Asset and Liability Management Committee, the Risk Management Committee, the Executive Committee and the Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risks on an ongoing basis. The Bank's risk management policies and major control limits are reviewed and recommended by the relevant specialised committees to the Board for approval, and are monitored and reviewed regularly according to established policies and procedures.

- The Internal Audit Division's role as the third line of defence is independent of the first and second lines of defence, with the Bank's Chief Auditor reporting directly to the Audit Committee. Pursuant to a risk-based approach, the Internal Audit Division conducts independent and objective assessment of the design and implementation of the risk management and control mechanisms of the Bank's business and functional units in order to identify any inadequacy. Results of audit work are reported regularly to the Audit Committee. In 2021, the Bank has engaged an external consultant Protiviti to perform an external quality assurance review of the Internal Audit Division. The review report concluded that the Internal Audit Division has complied with the HKMA SPM IC-2 Internal Audit Function requirements, and the International Standards for the Professional Practice of Internal Auditing.

- The Bank has established a whistleblowing policy which encourages employees to raise concerns, in confidence, about possible improprieties in any matter related to the Bank. The Bank treats all information received confidentially and protects the identity and the interests of all whistleblowers.

The Board has, through the Audit Committee and the Risk Committee, monitored the performance of the Group's risk management and internal control systems on an ongoing basis and also completed the 2021 annual review of their effectiveness, which covered such material aspects as financial, operational and compliance controls. The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems and is satisfied that such systems, including the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, are effective and adequate.

DIVIDEND POLICY

The Board has established a comprehensive Dividend Policy for the purpose of ensuring the dividend distributions of the Bank are conducted in accordance with the Articles of Association, applicable laws and regulations and also meet the expectation of relevant regulatory bodies. The Dividend Policy will be reviewed regularly in accordance with changes in regulatory requirements, economic and commercial environment. The Bank is dedicated to striking the right balance between reinvesting capital in the Bank's operations.

By Order of the Board

Lai Wing Nga
Company Secretary

Hong Kong, 31 March 2022

INDEPENDENT AUDITOR'S REPORT

To the Members of Chong Hing Bank Limited
(incorporated in Hong Kong with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 76 to 212, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Measurement of impairment allowances of advances to customers
- Information Technology – Implementation of new core banking system

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of impairment allowances of advances to customers *Refer to notes 7, 14 and 21 to the consolidated financial statements*	
As at 31 December 2021, the Group recorded gross advances to customers of HK$155,061 million and impairment allowances of HK$1,206 million, with HK$659 million as stage 1 and stage 2 impairment allowances and HK$547 million as stage 3 impairment allowances. The Group uses expected credit loss ("ECL") models based on the Group's experience of the correlations between defaults and losses to estimate impairment allowances on advances to customers. Key management judgments used in the ECL models include the following: – Application of set criteria to determine if any significant increase in credit risk, or a default or impairment loss, has occurred; – Selection of economic indicators relevant to determining forward-looking adjustments, and the application of economic scenarios and respective probability weightings, including consideration of forward looking economic impacts of COVID-19; and	We obtained an understanding of the end-to-end process and relevant internal controls through walk-through meetings with key departments. We evaluated and tested the controls over the following: – Governance over ECL models, including the review and approval of ECL methodologies and results, ECL model validation and key management assumptions by the ECL committee; – Control over the critical ECL model data inputs involved in the ECL computation; – Determination and approval of the selection of economic indicators and probability weightings of the assigned economic scenarios; and – Post approval credit management, management's identification of significant increases in credit risk, defaults and credit-impaired loans.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of impairment allowances of advances to customers (Continued)

Refer to notes 7, 14 and 21 to the consolidated financial statements (Continued)

- Provisions for impairment of Stage 3 loans that are individually assessed by the Group. These provisions are established based on the expected future cash repayments, and estimated proceeds from the value of the collateral held by the Group in respect of those loans, under multiple weighted scenario outcomes, including a scenario specific to COVID-19.

Considering the significant management judgments involved in the determination of ECL model methodologies, assessment of whether a significant increase in credit risk has occurred, economic scenarios to model forward-looking adjustments and respective probability weightings, and management's post-model overlay, we determined this area to be a key audit matter.

We also performed the following key substantive procedures:

- Assessed and challenged the reasonableness of the major model methodologies and assumptions, including the portfolio segmentation, use of statistical methods and, management's post-model overlay, and evaluated model validation reports with the assistance of our modelling experts, giving specific consideration to the impact of COVID-19;

- Assessed the appropriateness of management's identification of significant increases in credit risk, defaults and credit-impaired loans by considering financial information and non-financial information relating to the borrowers, relevant external evidence and other factors for the selected samples;

- Assessed and challenged management's analysis of their selection of economic indicators and economic scenarios including forward looking COVID-19 considerations, performed an assessment of their sensitivity analysis of probability weightings, and considered whether management's judgments would give rise to indicators of possible management bias, taking into consideration the latest developments of COVID-19 as at 31 December 2021;

- Evaluated, on a sample basis, the level of stage 3 impairment allowances recorded for specific loans by challenging management on the judgments applied in the estimation of expected future cash flows under multiple probability weighted scenarios and to check the mathematical accuracy of management's discounted cash flow calculation;

- Tested the accuracy of critical ECL data inputs by tracing, on a sample basis, to their source documents and data records maintained in various systems involved in the ECL computation; and

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of impairment allowances of advances to customers (Continued) *Refer to notes 7, 14 and 21 to the consolidated financial statements (Continued)*	
	– Checked and evaluated the financial statement disclosures in relation to ECL on advances to customers. Based on the work we performed, we consider the measurement of impairment allowances for advances to customers to be supported by available evidence.
Information Technology – Implementation of new core banking system	
During 2021, the Group implemented a new core banking system ("new system") which replaced the previous core banking systems and was made effective for Hong Kong and Macau's major business activities such as deposits, loans, remittance, and foreign exchange and in use to manage Retail and Corporate banking businesses. The Group's major business activities and the financial reporting process are highly dependent on automated controls, system generated information and system interfaces. The Group relied on the key IT systems and controls of the new system to ensure the accuracy and completeness of the financial reporting process. The implementation of the new system was considered an area of focus for our audit because our audit effort relied extensively on the effectiveness of the automated controls and the manual controls that are dependent on the outputs of the new system. This focus includes new system implementation controls, key transaction processing controls and the interfaces between the new systems and the accounting system.	The key controls over the implementation of the new system that are relevant to financial reporting were tested as part of our audit. We evaluated and tested the controls, on a sample basis, over the following: – Project governance, system testing and implementation controls; – Data migration during the system cut-over such as data coverage, defect management, data accuracy and completeness, data reconciliation, and management acceptance of migration results; – System access security and segregation of duties in the new system; – Input of transaction data and maintenance of key standing data; – Key system calculations and journal entries posting process; and – Interfaces between the new system and key application systems.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Information Technology – Implementation of new core banking system (Continued)	We also performed the following key substantive procedures: – Tested key reports generated by the new system used for financial reporting purposes. – Tested the accuracy and completeness of data migration during system cut-over; – Evaluated the remediations of the outstanding issues and relevant compensating procedures after the implementation of the new system; – Reviewed the reasonableness of the key mapping rules from the new system to the accounting system; – Assessed, on a sample basis, transactions in the new system to test the appropriateness of the general ledger account mapping rules from the new system to the Bank's accounting system; and – Tested the accuracy and completeness of data reconciliations between the new system and the accounting system. Based on the above audit procedures, no material exceptions that would impact our level of reliance on the key IT systems and the related controls for the purpose of our audit were noted.

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in Chong Hing Bank Limited 2021 Annual Report (the "annual report") other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including Financial Summary, Corporate Information, Biographical Details of Directors and Senior Management, Abridged Corporate Structure, Chairman's Statement, Chief Executive's Statement, Directors' Report, Corporate Governance Report, Unaudited Supplementary Financial Information and Head Office, Branches, Sub-Branches, Principal Subsidiaries and Associates prior to the date of this auditor's report. The remaining other information, including Regulatory Disclosure for the year ended 31 December 2021 and the other sections to be included in the annual report, is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the remaining other information to be included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Antoinette Hoon.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2022

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FINANCIAL STATEMENTS – CONTENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Interest income		**5,407,975**	5,565,742
Interest expense		**(2,122,252)**	(2,639,190)
Net interest income	9	**3,285,723**	2,926,552
Fee and commission income		**624,622**	513,217
Fee and commission expenses		**(95,183)**	(78,890)
Net fee and commission income	10	**529,439**	434,327
Net income from trading and investments	11	**407,508**	258,453
Other operating income	12	**173,785**	189,385
Operating expenses	13	**(1,871,010)**	(1,661,304)
Operating profit before impairment allowances		**2,525,445**	2,147,413
Net impairment losses on financial assets	14	**(792,612)**	(422,003)
Operating profit after impairment allowances		**1,732,833**	1,725,410
Net losses on disposal of equipment		**(7,988)**	(573)
Net income (loss) on fair value adjustments on investment properties	24	**6,834**	(10,300)
Share of profits of associates	23	**64,901**	42,229
Profit before taxation		**1,796,580**	1,756,766
Taxation	15	**(291,789)**	(276,788)
Profit for the year			
– Attributable to equity owners of the Bank		**1,504,791**	1,479,978

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
Profit for the year	**1,504,791**	1,479,978
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	**17,503**	–
Net gains (losses) on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	**1,163**	(10,005)
Remeasurements of retirement benefit	**–**	10,220
Income tax effect relating to retirement benefit	**–**	(1,686)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**194,138**	339,164
Net gains (losses) on investments in debt instruments measured at FVOCI	**406,518**	(404,342)
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	**(68,686)**	(57,416)
Income tax effect relating to disposal of financial assets measured at FVOCI	**11,333**	9,474
Income tax effect relating to fair value change of financial assets measured at FVOCI	**(58,160)**	59,806
Share of other comprehensive income of associates	**(9,275)**	6,180
Other comprehensive income for the year (net of tax)	**494,534**	(48,605)
Total comprehensive income for the year	**1,999,325**	1,431,373
Total comprehensive income attributable to:		
Equity owners of the Bank	**1,999,325**	1,431,373

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Assets			
Cash and short-term funds	17	**32,318,859**	21,800,643
Placements with banks maturing between one to twelve months		**525,627**	1,478,103
Derivative financial instruments	18	**1,403,842**	1,645,450
Investments in securities	19	**56,371,763**	52,853,752
Advances and other accounts	21	**161,830,511**	152,283,092
Tax recoverable		**2,051**	168,841
Interests in associates	23	**426,739**	399,553
Investment properties	24	**325,938**	299,513
Property and equipment	25	**1,091,895**	1,095,218
Deferred tax assets	32	**72,198**	32,109
Intangible assets	34	**878,135**	843,373
Total assets		**255,247,558**	232,899,647
Liabilities			
Deposits and balances of banks		**7,671,283**	8,229,574
Financial assets sold under repurchase agreements	26	**2,036,268**	786,540
Deposits from customers	27	**201,087,108**	183,228,291
Derivative financial instruments	18	**2,161,929**	3,775,482
Other accounts and accruals	35	**2,825,363**	3,241,808
Current tax liabilities		**86,247**	21,852
Certificates of deposit	28	**1,597,765**	2,551,530
Loan capital	29	**3,009,489**	3,033,178
Deferred tax liabilities	32	**176,339**	96,932
Total liabilities		**220,651,791**	204,965,187
Equity attributable to owners of the Bank			
Share capital	30	**15,280,884**	9,977,060
Additional equity instruments	31	**5,427,996**	5,427,996
Reserves		**13,886,887**	12,529,404
Total equity		**34,595,767**	27,934,460
Total liabilities and equity		**255,247,558**	232,899,647

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 31 March 2022 and signed on its behalf by:

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

Lau Wai Man
Executive Director and Deputy Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Share-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2021		9,977,060	5,427,996	(182)	6,023	47,666	179,633	1,388,500	167,565	603,000	10,137,199	27,934,460
Profit for the year		-	-	-	-	-	-	-	-	-	1,504,791	1,504,791
Other comprehensive income		-	-	-	-	282,893	17,503	-	194,138	-	-	494,534
Total comprehensive income for the year		-	-	-	-	282,893	17,503	-	194,138	-	1,504,791	1,999,325
Issue of share capital	30	5,303,824	-	-	-	-	-	-	-	-	-	5,303,824
Issue of additional equity instruments		-	-	-	-	-	-	-	-	-	-	-
Equity settled share-based transaction		-	-	-	(6,023)	-	-	-	-	-	-	(6,023)
Distribution payment for additional equity instruments		-	(305,046)	-	-	-	-	-	-	-	-	(305,046)
Transfer from retained profits		-	305,046	-	-	-	-	-	-	-	(305,046)	-
Interim dividend paid	16	-	-	-	-	-	-	-	-	-	(107,015)	(107,015)
Final dividend paid	16	-	-	-	-	-	-	-	-	-	(223,758)	(223,758)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	-	(21,000)	21,000	-
At 31 December 2021		15,280,884	5,427,996	(182)	-	330,559	197,136	1,388,500	361,703	582,000	11,027,171	34,595,767

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Share-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2020		9,977,060	3,111,315	(182)	-	443,969	179,633	1,388,500	(171,599)	1,039,000	8,895,517	24,863,213
Profit for the year		-	-	-	-	-	-	-	-	-	1,479,978	1,479,978
Other comprehensive income		-	-	-	-	(396,303)	-	-	339,164	-	8,534	(48,605)
Total comprehensive income for the year		-	-	-	-	(396,303)	-	-	339,164	-	1,488,512	1,431,373
Issue of share capital		-	-	-	-	-	-	-	-	-	-	-
Issue of additional equity instruments (Note 1)	31	-	2,316,681	-	-	-	-	-	-	-	-	2,316,681
Equity settled share-based transaction		-	-	-	6,023	-	-	-	-	-	-	6,023
Distribution payment for additional equity instruments		-	(177,116)	-	-	-	-	-	-	-	-	(177,116)
Transfer from retained profits		-	177,116	-	-	-	-	-	-	-	(177,116)	-
Interim dividend paid	16	-	-	-	-	-	-	-	-	-	(106,978)	(106,978)
Final dividend paid	16	-	-	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	-	(436,000)	436,000	-
At 31 December 2020		9,977,060	5,427,996	(182)	6,023	47,666	179,633	1,388,500	167,565	603,000	10,137,199	27,934,460

Note 1: During the year ended 31 December 2020, the Bank issued US$300,000,000 (equivalent to HK$2,325,030,000) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK$8,349,000 are accounted for as a deduction from the equity instrument.

The retained profits of the Group included retained profits of HK$221,778,000 (2020: retained profits of HK$183,524,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority (the "HKMA").

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**1,796,580**	1,756,766
Adjustments for:			
Net interest income	9	**(3,285,723)**	(2,926,552)
Net impairment losses on financial assets	14	**792,612**	422,003
Net losses on disposal of equipment		**7,988**	573
Net gains on disposal of financial assets measured at FVOCI		**(68,686)**	(57,416)
Net (income) loss on fair value adjustments on investment properties		**(6,834)**	10,300
Share of profits of associates	23	**(64,901)**	(42,229)
Net losses (gains) on fair value hedge		**407**	(7,003)
Dividend received from investments	12	**(8,976)**	(11,969)
Depreciation and amortisation	13	**342,684**	283,264
Equity settled share-based payment expenses		**(2,201)**	6,023
Exchange adjustments		**200,130**	690,903
Operating cash flows before movements in operating assets and liabilities		**(296,920)**	124,663
(Increase) decrease in operating assets:			
Money at call and short notice with original maturity over three months		**26,000**	94,656
Placements with banks with original maturity over three months		**(235,655)**	3,222,479
Financial assets at fair value through profit or loss		**(617,875)**	16,543
Advances to customers		**(13,105,923)**	(24,410,970)
Advances to banks		**(443,850)**	(266,134)
Other accounts		**3,345,425**	(2,265,834)
Increase (decrease) in operating liabilities:			
Deposits and balances of banks		**(558,291)**	1,279,653
Financial assets sold under repurchase agreements		**1,249,728**	(3,467,312)
Deposits from customers		**17,858,817**	20,563,643
Certificates of deposit		**(953,765)**	(1,197,545)
Derivative financial instruments		**(403,530)**	(664,771)
Other accounts and accruals		**(772,447)**	554,318
Cash generated from (used in) operations		**5,091,714**	(6,416,611)
Hong Kong profits tax recovered (paid)		**40,675**	(808,898)
Overseas tax paid		**(109,555)**	(86,408)
Interest received		**4,585,691**	4,634,053
Interest paid		**(1,722,785)**	(2,957,532)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		**7,885,740**	(5,635,396)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
INVESTING ACTIVITIES			
Interest received from investments in securities		**718,872**	1,246,921
Dividends received on investments in securities	12	**8,976**	11,969
Dividends received from associates		**28,440**	26,100
Purchase of financial assets measured at amortised cost		**(1,479,191)**	(2,400,044)
Purchase of financial assets measured at FVOCI		**(89,469,892)**	(117,800,913)
Purchase of property and equipment		**(166,768)**	(94,136)
Purchase of intangible assets		**(80,912)**	(66,213)
Proceeds from redemption of financial assets measured at amortised cost		**892,772**	388,354
Proceeds from sale and redemption of financial assets measured at FVOCI		**86,562,226**	125,382,102
Proceeds from disposal of equipment		**70,851**	2,037
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(2,914,626)**	6,696,177
FINANCING ACTIVITIES			
Net proceeds from issue of share capital		**5,300,000**	–
Net proceeds from issue of additional equity instruments		**–**	2,316,681
Redemption of loan capital		**–**	(1,629,378)
Interest paid on loan capital	29	**(53,950)**	(213,627)
Payment of lease liabilities	35	**(159,167)**	(185,300)
Dividends paid to ordinary shareholders		**(330,773)**	(505,714)
Distribution paid on additional equity instruments		**(305,046)**	(177,116)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		**4,451,064**	(394,454)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,422,178**	666,327
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**22,965,025**	22,298,698
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**32,387,203**	22,965,025
Represented by:			
Cash and balances with central bank and banks		**17,312,228**	17,202,817
Money at call and short notice with original maturity of less than three months		**15,006,631**	4,571,826
Placements with banks maturing between one to twelve months with original maturity of less than three months		**68,344**	1,190,382
		32,387,203	22,965,025

The notes on pages 83 to 212 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. GENERAL

Chong Hing Bank Limited (the "Bank") is a limited company incorporated in Hong Kong. The listing of the shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited had been withdrawn on 30 September 2021, and it became a wholly-owned subsidiary of Yuexiu Financial Holdings Limited since then.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following amendment to accounting standards is applicable for reporting periods commencing after 1 January 2021:

– Interest Rate Benchmark Reform – Phase 2, amendments to HKFRS 9 "Financial Instruments", HKAS 39 "Financial Instruments: Recognition and Measurement", HKFRS 7 "Financial Instruments: Disclosure", HKFRS 4 "Insurance Contracts" and HKFRS 16 "Leases".

  The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform and relate to:

  (i) changes to contractual cash flows – financial instruments will not be derecognised or the carrying amount of financial instruments will not be adjusted for changes required by the reform, but the effective interest rate will be updated to reflect the change to the alternative benchmark rate;

  (ii) hedge accounting – hedge accounting will not be discontinued solely because changes are made required by the reform, if the hedge meets other hedge accounting criteria; and

  (iii) disclosures – disclose information will be required about new risks arising from the reform and how the transition to alternative benchmark rates is managed.

  Details of the effect of Interest Rate Benchmark Reform are set out in Note 7 to the financial statements.

  There are no other HKFRSs or interpretations that are effective from 1 January 2021 that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Bank 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 listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Measurement methods

Amortised cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not POCI but have subsequently become credit-impaired (or "Stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods (Continued)

Initial recognition and measurement (Continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

– Fair value through profit or loss ("FVPL");

– Fair value through other comprehensive income ("FVOCI"); or

– Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss and recognised in 'Net income from trading and investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net income from trading and investments' in the period in which it arises.

  Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

  SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net income from trading and investments' line in the income statement.

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

– The time value of money; and

– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

***Financial assets** (Continued)*

(v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies (see Note 4(iv)); and

- Financial guarantee contracts and loan commitments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities *(Continued)*

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and

- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS *(Continued)*

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

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

DERIVATIVES AND HEDGING ACTIVITIES

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale received are reported as financial assets sold under repurchase agreements, and are carried in the statement of financial position at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities and not recognised on the statement of financial position, but the consideration paid is recorded as advances to banks, and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement, using the effective interest rate method.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment losses for goodwill is recognised directly in the consolidated income statement. An impairment losses recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Computer software and internally developed software

Costs associated with maintaining computer software and internally developed software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Direct attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

INTERESTS IN ASSOCIATES

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTERESTS IN ASSOCIATES *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

INTEREST INCOME AND EXPENSES

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

NON-INTEREST INCOME REVENUE RECOGNITION

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Dividends

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

NON-INTEREST INCOME REVENUE RECOGNITION *(Continued)*

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

PROPERTY AND EQUIPMENT

Property and equipment including land and buildings, which mainly comprise of branches and offices are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

Depreciation is calculated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the lease
Buildings	Over its estimated useful life of 50 years or over the remaining term of lease of the leasehold land, whichever is the shorter
Equipment	5-15 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the item is derecognised.

FOREIGN CURRENCIES

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional currency and the Group's presentation currency.

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

Transactions and balances *(Continued)*

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equity instruments measured at FVPL, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equity instruments measured at FVOCI, are included in other comprehensive income.

Group companies and oversea branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction
dates, in which case income and expenses are translated at the dates of the transactions); and

– All resulting exchange differences are recognised in other comprehensive income.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the income statement. Past service cost is recognised in the income statement in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), recognised in the income statement;

- net interest expense or income, recognised in the income statement; and

- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

BONUS PLANS

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

SHARE BASED PAYMENTS

The market value of the shares issued is recognised as staff costs with a corresponding increase in equity over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of shares that are expected to vest based on service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Where impairment losses subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset in prior years. A reversal of impairment losses is recognised as income immediately.

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central bank and banks, money at call and short notice, as well as placements with banks.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

The group as lessee

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable and the payments to be made under reasonably certain to exercise termination option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentive received and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

The group as lessor

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgments, 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.

(A) MEASUREMENT OF THE EXPECTED CREDIT LOSS ALLOWANCE

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, financial assets measured at FVOCI, loan commitment and financial guarantee is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The Group establishes, through charges against profit, impairment allowances in respect of expected credit losses on financial instrument. The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment loss
Stage 1	Performing	12-month ECL
Stage 2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
Stage 3	Non-performing	Lifetime ECL

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

Detailed information about the judgments and estimates made by the Group is set out in Note 7.

(B) FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and structured products with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are set out in Note 7.

6. SEGMENT INFORMATION

(A) OPERATING SEGMENTS

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities business of the Group includes securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2021 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	4,818,787	579,335	7,700	2,153	-	5,407,975
Interest expense to external customers	(2,013,409)	(21,359)	(43)	(87,441)	-	(2,122,252)
Inter-segment interest income (Note)	16,546	-	-	174,804	(191,350)	-
Inter-segment interest expense (Note)	-	(191,350)	-	-	191,350	-
Net interest income	2,821,924	366,626	7,657	89,516	-	3,285,723
Fee and commission income	456,664	4,037	157,647	6,274	-	624,622
Fee and commission expense	(94,262)	(227)	(694)	-	-	(95,183)
Net income (loss) from trading and investments	150,215	218,784	(103)	38,612	-	407,508
Other operating income	123,073	-	516	50,196	-	173,785
Total Operating income						
Segment revenue	3,457,614	589,220	165,023	184,598	-	4,396,455
Comprising:						
– Segment revenue from external customers	3,441,068	780,570	165,023	9,794		
– Inter-segment transactions	16,546	(191,350)	-	174,804		
Operating expenses	(1,598,871)	(129,725)	(94,242)	(48,172)	-	(1,871,010)
Net impairment losses on financial assets	(799,932)	7,327	(5)	(2)	-	(792,612)
Segment profit	1,058,811	466,822	70,776	136,424	-	1,732,833
Unallocated corporate expenses						(1,154)
Share of profits of associates						64,901
Profit before taxation						1,796,580

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2021 is presented below: *(Continued)*

Operating segment assets and liabilities as at 31 December 2021

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	181,647,764	70,985,322	320,944	450,100	253,404,130
Interests in associates					426,739
Unallocated corporate assets					1,416,689
Consolidated total assets					255,247,558
Liabilities					
Segment liabilities	202,264,966	16,795,363	115,723	158,003	219,334,055
Unallocated corporate liabilities					1,317,736
Consolidated total liabilities					220,651,791

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	200,322	726	5,063	2,155	55,518	263,784
Depreciation and amortisation	229,981	13,964	12,787	8,730	77,222	342,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2020 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	4,530,836	1,022,618	7,668	4,620	-	5,565,742
Interest expense to external customers	(2,372,914)	(97,235)	(25)	(169,016)	-	(2,639,190)
Inter-segment interest income (Note)	265,884	-	-	340,243	(606,127)	-
Inter-segment interest expense (Note)	-	(606,127)	-	-	606,127	-
Net interest income	2,423,806	319,256	7,643	175,847	-	2,926,552
Fee and commission income	344,780	4,443	158,246	5,748	-	513,217
Fee and commission expense	(78,426)	(158)	(306)	-	-	(78,890)
Net income (loss) from trading and investments	130,020	141,980	(117)	(13,430)	-	258,453
Other operating income	118,796	-	4,411	66,178	-	189,385
Total Operating income						
Segment revenue	2,938,976	465,521	169,877	234,343	-	3,808,717
Comprising:						
- Segment revenue from external customers	2,673,092	1,071,648	169,877	(105,900)		
- Inter-segment transactions	265,884	(606,127)	-	340,243		
Operating expenses	(1,408,389)	(115,951)	(83,321)	(53,643)	-	(1,661,304)
Net impairment losses on financial assets	(380,073)	(41,943)	-	13	-	(422,003)
Segment profit	1,150,514	307,627	86,556	180,713	-	1,725,410
Unallocated corporate expenses						(10,873)
Share of profits of associates						42,229
Profit before taxation						1,756,766

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

Due to the revision in the inter-segment pricing policy during the year applied to operating segments, certain comparative figures have been restated to conform to the current year's presentation.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2020 is presented below: (Continued)

Operating segment assets and liabilities as at 31 December 2020

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	172,210,814	57,913,566	619,806	175,576	230,919,762
Interests in associates					399,553
Unallocated corporate assets					1,580,332
Consolidated total assets					232,899,647
Liabilities					
Segment liabilities	184,331,347	18,736,234	374,799	166,211	203,608,591
Unallocated corporate liabilities					1,356,596
Consolidated total liabilities					204,965,187

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	23,676	3	1,131	291	52,730	77,831
Depreciation and amortisation	172,440	13,623	12,552	8,220	76,429	283,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

6. SEGMENT INFORMATION *(Continued)*

(B) GEOGRAPHICAL INFORMATION

Geographical information (including geographical analysis of total segment revenue) 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. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2021						
	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	**3,199,219**	**1,432,043**	**176,347**	**181,438,028**	**153,214,902**	**39,715,894**	**2,313,950**
Mainland China	**1,121,872**	**409,992**	**87,394**	**70,277,469**	**64,249,299**	**19,645,263**	**389,169**
Macau and Others	**74,364**	**(45,455)**	**43**	**3,532,061**	**3,187,590**	**367,283**	**19,588**
Total	**4,396,455**	**1,796,580**	**263,784**	**255,247,558**	**220,651,791**	**59,728,440**	**2,722,707**

	2020						
	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	2,933,217	1,218,423	60,287	170,066,910	147,966,724	35,768,118	2,337,535
Mainland China	818,651	501,150	17,527	59,278,566	53,834,445	10,038,474	296,933
Macau and Others	56,849	37,193	17	3,554,171	3,164,018	504,403	3,189
Total	3,808,717	1,756,766	77,831	232,899,647	204,965,187	46,310,995	2,637,657

Note: Total operating income consists of net interest income, net fee and commission income, net income from trading and investments and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment and intangible assets.

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7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance.

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

Risk management functions are carried out by the Asset and Liability Management Committee (the "ALCO") under policies approved by the Board of Directors of the Bank (the "Board") and the Risk Management Committee (the "RMC"). The ALCO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board and the RMC provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks from the use of financial instruments are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2021 HK$'000	2020 HK$'000
Financial assets		
Financial assets measured at fair value through profit or loss	**2,145,861**	1,769,594
Financial assets measured at FVOCI	**60,852,034**	55,371,700
Financial assets measured at amortised cost (including cash and cash equivalents)	**189,452,707**	172,919,746
Financial liabilities		
Fair value through profit or loss	**2,161,929**	3,775,482
Amortised cost (Note)	**218,227,276**	201,070,921

Note: Loan capital of HK$3,009,489,000 (2020: HK$3,033,178,000) was carried at amortised cost with adjustment of fair value hedge as at 31 December 2021 (see note 29).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and head of each business unit.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer, Chief Credit Officer and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit risk officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit risk officer.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk rating

The Group uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being default. Borrower and loan specific information, both quantitative and qualitative, such as profitability ratio and industry type for corporate banking customers, are fed into the rating model to estimate the default risk. The internal credit risk rating is applied on corporate counterparties.

Expected credit loss measurement

HKFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition.

A financial instrument that have not had a significant changes in credit risk ("SICR") since initial recognition or that have low credit risk at the reporting date is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward looking information.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into mortgage, credit card, overdraft, personal loan and etc.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions and etc. Credit limit is also considered to further classify the corporate loans into Corporate Top Tier and Corporate.

Treasury

The treasury exposures are grouped based on the issuer type – bank, corporate and sovereign.

Others

For exposures from subsidiaries and overseas branches and sub-branches, they are grouped based on the business type of the subsidiaries and geographic location of the overseas branches and sub-branches.

Determining criteria for SICR

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Group's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

The Group adopts "Policy & Procedures for Loan Classification" based on HKMA guidelines. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Group also maintains an Early Warning ("EW") list, which includes borrowers who exhibit risks or potential weaknesses of material nature requiring closer monitoring, supervision, or attention by management. The EW accounts are classified into three categories, namely Low Risk, Medium Risk and High Risk.

A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):

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for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining criteria for SICR *(Continued)*

- Contractual payments are equal to or more than 30 days and less than 90 days past due;

- Loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification";

- Significant change in external credit rating, i.e. migrating from investment grade to speculative grade, (applicable to treasury portfolios only);

- Any Medium or High risk borrower in the EW List. High risk EW borrowers present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW borrowers exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk borrowers are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of its creditworthiness and it is placed on early warning solely for precautionary purpose, elevated attention and closer monitoring; and

- Any facility with current credit risk rating downgraded by two or more notches compared with the credit risk rating at origination, (applicable to Corporate and Corporate Top Tier segments only).

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Determining definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is aligned with definition of credit impaired, when it meets one or more of following criteria:

- A loan is classified as Substandard, Doubtful or Loss according to the "Policy & Procedures for Loan Classification";

- A financial asset is 90 days past due or more than 90 days past due on the contractual payments;

- Loan is identified as restructured; and

- Loan is identified as forbearance.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for the internal credit risk management purpose. In response to the COVID-19 pandemic, the HKMA has developed a Pre-approved Principal Payment Holiday Scheme, in which, participating institutions will pre-approve deferment of loan principle payments of eligible small-to-mid-sized corporates. In accordance with the HKMA's loan classification guidelines, deferments of principal payments under the Scheme will not by themselves render a loan account to be downgraded to a lower category. In line with regulatory guidelines, customers' utilisation of relief measures does not automatically trigger as default / credit-impaired assets. The key accounting and credit risk judgment to ascertain whether a significant increase in credit risk has occurred is whether the economic effects of COVID-19 on the customer are likely to be temporary over the lifetime of the loan, and do not indicate that a concession is being made in respect of financial difficulty that would be consistent with stage 3.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining appropriate models and assumption of the measurement of ECL

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since origination or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). PD, EAD and LGD are defined as follows:

– The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

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

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by internal credit risk rating, observed historical data and macroeconomic variables. The relationship between PD and macroeconomic variables is developed by the statistical regression model and the lifetime PD is derived by input of forward-looking macroeconomic variables.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type.

Loans and advances

– For non-revolving products, this is based on the outstanding balance owed by the borrower over a 12-month or lifetime basis.

– For revolving products, the exposure at default is predicted by taking current drawn balance and adding an "adjustment factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

Treasury

For treasury portfolios, the 12-month and lifetime EADs are calculated depending on the product type and booking type.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Measurement of LGD

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

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales and time to recovery observed.

- For unsecured products, LGD are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD are influenced by collection strategies. Historical data and Basel model requirement are analysed to derive the LGD.

- For Stage 3 account, other expected future cash flow may also take into consideration if any repayment schedule is confirmed.

The assumptions underlying the ECL calculation are monitored and reviewed regularly. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

Incorporating forward-looking information into the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The forward-looking element is reflected through the impact on PD and LGD models.

The economic variables and their associated impact on PD and LGD vary by financial instruments. Regression analysis was applied to select the most significant economic factors impacting the PD and LGD for each portfolio and to determine their associated impact on PD and LGD. This process involved experts' judgments.

The forward-looking element is reflected by applying the forecasts of the economic variables included in the PD and LGD models. Forecasts of these economic variables are sourced from a leading economic forecasting provider.

According to the HKFRS 9, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. The Group applied four macroeconomic scenarios, namely Good, Base, Bad and COVID-19 scenarios in its HK portfolio, and 3 macroeconomics scenarios, Good, Base and Bad scenarios are assigned to China portfolio which accounts for 29% of the Group's portfolio in terms of outstanding amount at the end of 2021. Refer to COVID-19 Scenario for details.

Good, Base and Bad Scenarios

The Good scenario reflects the optimistic view of the future performance of the economy, while the Base scenario reflects the average performance of the economy in future. The Bad scenario assumes the potential economy downturn in future. In this scenario setting process, the Group considered the current economic environment, market forecasts in coming year and management's views on economic outlook.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

COVID-19 Scenario

The COVID-19 situation in Hong Kong remains challenging as the fifth wave of outbreak continues to rage on. The COVID-19 scenario was extended in order to accommodate the possible down turn economic environment due to the uncertainty of COVID-19. Looking ahead into 2022, zero-COVID policy imposed by governments heightens the need for movement controls, tourism and retail remain deeply wounded by border restrictions and two-way traffic between Hong Kong and Mainland China is still under negotiation. Risks to Hong Kong's growth prospects and public finances will be compounded if the territory experiences further threats from subsequent waves of the COVID-19 pandemic over the next one or two years, assuming the government continues to adhere to its zero-COVID approach. The COVID-19 scenario adopted reflects the bad economic forecast scenario in the third wave of COVID-19 infection in HK (e.g. end of June 2020).

Hong Kong's GDP experienced an unprecedented V-shape growth rate in 2021 forecast, which was driven by the low base effect in 2020. The assignment of 35% weight to COVID-19 scenario in 2020 was to flatten the curve during that period to prevent drastic release of expected credit loss in 2020. In 2021, Hong Kong economy escaped from that V-shaped period and returned to a moderate level. The Group thereby adjusts the probability weighting of COVID-19 from 35% to 25% in its Hong Kong portfolio in Year 2021. As for Mainland China, it is doubling down on its "zero-COVID" strategy. It has stepped up policies to stamp out any new outbreak as soon as it arises, sealing off cities, shutting transport links and launching mass testing programmes. The approach has kept infections at a minimum. The COVID-19 scenario was removed from its Mainland China portfolio as a result.

The weighting of each scenario is determined by management judgments with consideration of geographic sectors, macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario.

Economic variable assumptions

The Group has included various economic forecast variables in the forward-looking models to estimate the ECL for different portfolios. When assessing the significance of assumptions for the ECL estimate, the Group has considered the extent of the usage of the economic variables and the ECL impact of the corresponding portfolio.

Corporate and Treasury portfolios account for the majority of ECL. Key economic factors as significant to ECL are summarised as follows:

- Hong Kong economic variables – GDP YoY Change %, Property Price QoQ Change % and Hong Kong Unemployment Rate
- Mainland China's economic variables – GDP QoQ Change % and China Unemployment Rate

GDP (YoY/QoQ) Change %

GDP Change % is one of key economic variables reflecting the economic environment. It has significant impact on companies' performance. The domestic GDP of Hong Kong and Mainland China impacts their PD estimation respectively.

Unemployment Rate

Same as GDP, the Unemployment Rate of Hong Kong and Mainland China impacts their PD estimation respectively. It has significant relationship with customers' repayment ability.

Property Price QoQ Change %

Property Price is another key economic variable reflects the economic environment. It impacts both PD and LGD estimations. Collateral value would be inflated when property market is positive and hence lowers the LGD.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Economic variable assumptions** (Continued)*

The economic environment has had significant changes since 31 December 2019 as resulting from the COVID-19 pandemic and the economy is expected to be continuously impacted in near-middle term. The trends of the economic variables are critical to ECL estimate, therefore, assumptions are presented individually for year of 2021, 2022 and 2023.

The most significant period-end assumptions used for ECL are set out below:

	Scenario	2021 (Annual average)	2022 (Annual average)	2023 (Annual average)
Hong Kong Forecast Factors				
GDP YoY Change %	Base	6.27%	1.44%	4.12%
	Good	6.27%	4.97%	5.67%
	Bad	6.27%	-8.29%	-1.24%
	COVID-19	-12.68%	-3.00%	1.80%
Unemployment rate	Base	5.30%	4.34%	3.99%
	Good	5.30%	3.72%	3.20%
	Bad	5.30%	6.00%	6.14%
	COVID-19	5.35%	6.29%	5.43%
Property price QoQ Change %	Base	1.89%	-0.32%	1.22%
	Good	1.89%	2.97%	1.82%
	Bad	1.89%	-5.75%	-0.63%
	COVID-19	-5.22%	-2.94%	0.38%
Mainland China Forecast Factors				
GDP QoQ Change %	Base	0.54%	1.39%	1.44%
	Good	0.54%	2.45%	1.70%
	Bad	0.54%	-1.30%	0.66%
Unemployment rate	Base	4.03%	3.94%	3.99%
	Good	4.03%	3.58%	3.39%
	Bad	4.03%	4.70%	5.50%

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Economic variable assumptions** (Continued)*

The Group has performed a series of sensitivity analysis for the impacts of economic scenarios and economic variables on Stage 1 and Stage 2 expected credit loss. The sensitivity analysis excludes expected credit loss related to Mainland China portfolio as no COVID-19 scenario was applied in Mainland China portfolio.

– As at December 2021, the ECL estimate of Stage 1 and Stage 2 was HK$905 million with the probability weighting assigned as below table for Non-Mainland China portfolio.

	Scenario	2020 Weighting	2021 Weighting
Hong Kong portfolio Scenario Weighting	Base	40%	**50%**
	Good	5%	**5%**
	Bad	20%	**20%**
	COVID-19	35%	**25%**
Mainland China Portfolio Scenario Weighting	Base	40%	**75%**
	Good	5%	**5%**
	Bad	20%	**20%**
	COVID-19	35%	**N/A**

– By assuming 5% scenario weight shift between Base scenario and COVID-19 scenario, there would be an increase/ decrease in expected credit loss by approximately HK$19.5 million.

– A shock scenario is conducted for the effects brought by economic variables, by assuming economic variables are negatively adjusted by 10%, expected credit loss would be impacted by approximately HK$15 million.

As of 31 Dec 2021, the most significant assumptions used for the ECL estimate were set out below:

	Scenario	Average (2021–2023)
Hong Kong Forecast Factor		
GDP YoY Change %	Base	3.95%
	Good	5.64%
	Bad	–1.09%
	COVID-19	–4.63%
Mainland China Forecast Factor		
GDP QoQ Change %	Base	1.12%
	Good	1.56%
	Bad	–0.03%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Management judgment and overlay

As at 31 December 2021, the Group makes a post-model overlay for its Mainland China portfolio to factor in the policy risk which could not be addressed by ECL models.

In response to the impact of COVID-19, the Group had coordinated with the HKMA in launching various forms of relief measures, such as Pre-approved Principal Payment Holiday Scheme together with the Banking Sector SME Lending Coordination Mechanism, to eligible retail and corporate customers to alleviate the financial pressure and impact of the pandemic. Payment deferments were considered as commercial terms. No material modification gains or losses were recognised. In line with regulatory guidelines, customers' utilisation of relief measures does not automatically trigger the migration to Stage 2. Ongoing risk screening and assessment of customer's risk of default continues to be performed by the Bank comprehensively, taking into account the customer's ability to make payments based on the rescheduled payments and their creditworthiness in the long term.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments. For advances to customers and loan commitments and financial guarantee contracts, credit rating from "Guideline on loan classification system" issued by Hong Kong Monetary Authority is adopted. For debt securities, short-term funds and placements with banks, credit rating from Moody's, or equivalent, is adopted. Debt securities not rated by Moody's, or equivalent, are treated as unrated ones. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure *(Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Advances to customers

	2021 Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Pass	147,514,447	5,131,981	–	152,646,428
Special mention	–	415,811	4,038	419,849
Substandard	–	–	1,631,156	1,631,156
Doubtful	–	–	353,612	353,612
Loss	–	–	9,918	9,918
Gross carrying amount at 31 December	147,514,447	5,547,792	1,998,724	155,060,963
Loss allowance	570,700	88,268	547,156	1,206,124
Carrying amount at 31 December	146,943,747	5,459,524	1,451,568	153,854,839

	2020 Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Pass	137,458,053	3,188,073	–	140,646,126
Special mention	–	813,015	2,880	815,895
Substandard	–	–	595,049	595,049
Doubtful	–	–	241,223	241,223
Loss	–	–	83,324	83,324
Gross carrying amount at 31 December	137,458,053	4,001,088	922,476	142,381,617
Loss allowance	428,285	108,518	342,486	879,289
Carrying amount at 31 December	137,029,768	3,892,570	579,990	141,502,328

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Credit risk exposure** (Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Debt securities

	2021			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Aaa	**1,964,965**	**–**	**–**	**1,964,965**
Aa1 to Aa3	**11,679,238**	**–**	**–**	**11,679,238**
A1 to A3	**25,291,545**	**–**	**–**	**25,291,545**
Lower than A3	**13,451,452**	**–**	**–**	**13,451,452**
Unrated	**2,924,516**	**360,742**	**–**	**3,285,258**
Gross carrying amount at 31 December	**55,311,716**	**360,742**	**–**	**55,672,458**
Loss allowance	**112,395**	**13,832**	**–**	**126,227**
Carrying amount at 31 December	**55,199,321**	**346,910**	**–**	**55,546,231**

	2020			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Aaa	2,120,829	–	–	2,120,829
Aa1 to Aa3	4,644,032	–	–	4,644,032
A1 to A3	29,131,589	–	–	29,131,589
Lower than A3	13,733,853	–	–	13,733,853
Unrated	2,773,645	384,192	–	3,157,837
Gross carrying amount at 31 December	52,403,948	384,192	–	52,788,140
Loss allowance	107,240	33,052	–	140,292
Carrying amount at 31 December	52,296,708	351,140	–	52,647,848

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure *(Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Loan commitments and financial guarantee contracts

	2021 Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Pass	**13,104,223**	**36,743**	**–**	**13,140,966**
Special mention	**–**	**81,913**	**–**	**81,913**
Substandard	**–**	**–**	**–**	**–**
Doubtful	**–**	**–**	**–**	**–**
Loss	**–**	**–**	**–**	**–**
Gross carrying amount at 31 December	**13,104,223**	**118,656**	**–**	**13,222,879**
Loss allowance	**23,426**	**3,070**	**–**	**26,496**
Carrying amount at 31 December	**13,080,797**	**115,586**	**–**	**13,196,383**

	2020 Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Credit rating				
Pass	14,229,537	125,956	–	14,355,493
Special mention	–	6,169	–	6,169
Substandard	–	–	10,242	10,242
Doubtful	–	–	–	–
Loss	–	–	–	–
Gross carrying amount at 31 December	14,229,537	132,125	10,242	14,371,904
Loss allowance	23,173	5,207	2,729	31,109
Carrying amount at 31 December	14,206,364	126,918	7,513	14,340,795

Short-term funds and placements with banks

The Group held, short-term funds and placements with banks of HK$32,114,477,000 at 31 December 2021 (31 December 2020: HK$22,876,322,000), which are rated at investment grade based on Moody's or equivalent ratings. The placements with banks is neither past due nor impaired and unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Credit risk exposure** (Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	2021 HK$'000	2020 HK$'000
Financial assets at fair value through profit or loss		
– Debt securities	**126,862**	124,053
– Other securities	**615,157**	–
– Derivatives	**1,339,175**	1,559,121
Hedging Derivatives	**64,667**	86,329

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business premises; and
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

As at 31 December 2021, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$1,588,914,000 (2020: 1,179,288,000). The Group had not sold or re-pledged such collateral (2020: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements *(Continued)*

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit-impaired assets

	2021			
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000
Loans and advances to customers				
Overdrafts	**39,420**	**(15,609)**	**23,811**	**27,273**
Instalment loans	**55,664**	**(4,168)**	**51,496**	**121,960**
Term loans	**1,282,898**	**(193,018)**	**1,089,880**	**1,257,609**
Syndication loans	**513,266**	**(308,827)**	**204,439**	**–**
Trade finance	**105,923**	**(25,309)**	**80,614**	**92,657**
Personal loans and tax loans	**1,475**	**(147)**	**1,328**	**2,024**
Other	**78**	**(78)**	**–**	**–**
Total credit-impaired assets	**1,998,724**	**(547,156)**	**1,451,568**	**1,501,523**

	2020			
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000
Loans and advances to customers				
Overdrafts	42,353	(15,430)	26,923	29,016
Instalment loans	43,389	(5,937)	37,452	105,088
Term loans	256,474	(81,384)	175,090	132,215
Syndication loans	164,920	(88,857)	76,063	–
Trade finance	412,362	(150,384)	261,978	69,610
Personal loans and tax loans	2,707	(223)	2,484	5,622
Other	271	(271)	–	–
Total credit-impaired assets	922,476	(342,486)	579,990	341,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance

The following tables explain the changes in gross exposure and the loss allowance between the beginning and the end of the annual period due to these factors:

Advances to customers

	2021							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000
Balance at 1 January	137,458,053	428,285	4,001,088	108,518	922,476	342,486	142,381,617	879,289
Transfers:								
Transfer from Stage 1 to Stage 2	(2,704,878)	(2,604)	2,704,878	20,790	-	-	-	18,186
Transfer from Stage 2 to Stage 1	648,605	783	(648,605)	(11,754)	-	-	-	(10,971)
Transfer to Stage 3	(1,474,214)	(1,948)	(30,317)	(65)	1,504,531	648,309	-	646,296
Transfer from Stage 3	824	-	897	8	(1,721)	(257)	-	(249)
Net new financial assets originated/ (asset derecognised)	19,593,980	127,962	(7,342)	(18,079)	-	-	19,586,638	109,883
Changes in PDs/LGDs/EADs	(6,007,923)	(109,669)	(472,807)	(2,148)	(7,493)	(25,616)	(6,488,223)	(137,433)
Changes in model assumption and methodologies	-	122,510	-	(10,128)	-	-	-	112,382
Amounts written off	-	-	-	-	(419,069)	(419,069)	(419,069)	(419,069)
Other movements	-	5,381	-	1,126	-	1,303	-	7,810
Balance at 31 December	147,514,447	570,700	5,547,792	88,268	1,998,724	547,156	155,060,963	1,206,124

	Total HK$'000
Change in ECL in income statement charge for the year	738,094
Add: Recoveries	(2,554)
Add: Others	10,063
Total ECL charge for the year	745,603

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

Advances to customers (Continued)

	2020							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000
Balance at 1 January	116,906,160	382,053	775,153	43,710	397,601	193,597	118,078,914	619,360
Transfers:								
Transfer from Stage 1 to Stage 2	(3,621,203)	(11,731)	3,621,203	55,184	–	–	–	43,453
Transfer from Stage 2 to Stage 1	145,462	130	(145,462)	(5,727)	–	–	–	(5,597)
Transfer to Stage 3	(633,635)	(3,806)	(6,779)	(216)	640,414	220,508	–	216,486
Transfer from Stage 3	1,872	–	–	–	(1,872)	(165)	–	(165)
Net new financial assets originated/ (asset derecognised)	27,739,487	113,325	145,256	(3,125)	55,901	7,227	27,940,644	117,427
Changes in PDs/LGDs/EADs	(3,080,090)	(46,286)	(388,283)	(15,443)	(69,661)	24,395	(3,538,034)	(37,334)
Changes in model assumption and methodologies	–	(13,896)	–	33,501	–	–	–	19,605
Amounts written off	–	–	–	–	(99,907)	(99,907)	(99,907)	(99,907)
Other movements	–	8,496	–	634	–	(3,169)	–	5,961
Balance at 31 December	137,458,053	428,285	4,001,088	108,518	922,476	342,486	142,381,617	879,289

	Total HK$'000
Change in ECL in income statement charge for the year	353,875
Add: Recoveries	(2,433)
Add: Others	10,792
Total ECL charge for the year	362,234

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Loss allowance** (Continued)*

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Debt securities

	2021			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	**107,240**	**33,052**	**–**	**140,292**
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase of debt securities	(2,730)	–	–	(2,730)
Changes in PDs/LGDs/EADs	17,121	(17,925)	–	(804)
Changes in model assumption and methodologies	(9,236)	(1,295)	–	(10,531)
Other movements	–	–	–	–
Balance at 31 December	**112,395**	**13,832**	**–**	**126,227**
Of which:				
For debt securities at amortised cost	9,335	–	–	9,335
For debt securities at FVOCI	103,060	13,832	–	116,892
	112,395	13,832	–	126,227

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Loss allowance** (Continued)*

Debt securities (Continued)

	2020			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	100,301	–	–	100,301
Transfers:				
Transfer from Stage 1 to Stage 2	(1,205)	26,177	–	24,972
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase of debt securities	3,016	–	–	3,016
Changes in PDs/LGDs/EADs	2,090	–	–	2,090
Changes in model assumption and methodologies	3,045	6,875	–	9,920
Other movements	(7)	–	–	(7)
Balance at 31 December	107,240	33,052	–	140,292
Of which:				
For debt securities at amortised cost	9,811	–	–	9,811
For debt securities at FVOCI	97,429	33,052	–	130,481
	107,240	33,052	–	140,292

The impairment allowances of debt securities at FVOCI are not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

Loan commitments and financial guarantee contracts

	2021			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	**23,173**	**5,207**	**2,729**	**31,109**
Transfers:				
Transfer from Stage 1 to Stage 2	**(72)**	**2,251**	**–**	**2,179**
Transfer from Stage 2 to Stage 1	**57**	**(2,762)**	**–**	**(2,705)**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Transfer from Stage 3	**–**	**–**	**–**	**–**
Net increase (decrease) of loan commitment and financial guarantee contracts	**3,174**	**(1,390)**	**(2,729)**	**(945)**
Changes in PDs/LGDs/EADs	**(5,464)**	**245**	**–**	**(5,219)**
Changes in model assumption and methodologies	**2,346**	**(518)**	**–**	**1,828**
Other movements	**212**	**37**	**–**	**249**
Balance at 31 December	**23,426**	**3,070**	**–**	**26,496**

	2020			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	7,263	5,479	–	12,742
Transfers:				
Transfer from Stage 1 to Stage 2	(699)	3,682	–	2,983
Transfer from Stage 2 to Stage 1	13	(780)	–	(767)
Transfer to Stage 3	(538)	–	2,729	2,191
Transfer from Stage 3	–	–	–	–
Net increase (decrease) of loan commitment and financial guarantee contracts	14,593	126	–	14,719
Changes in PDs/LGDs/EADs	14,317	(8,328)	–	5,989
Changes in model assumption and methodologies	(12,008)	5,018	–	(6,990)
Other movements	232	10	–	242
Balance at 31 December	23,173	5,207	2,729	31,109

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Loss allowance** (Continued)*

Short-term funds and placements with banks

	2021			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	**26,939**	**–**	**–**	**26,939**
Transfers:				
Transfer from Stage 1 to Stage 2	**–**	**–**	**–**	**–**
Transfer from Stage 2 to Stage 1	**–**	**–**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Transfer from Stage 3	**–**	**–**	**–**	**–**
Net decrease in short-term funds and placements with banks	**81,064**	**–**	**–**	**81,064**
Changes in PDs/LGDs/EADs	**(62,890)**	**–**	**–**	**(62,890)**
Changes in model assumption and methodologies	**47,762**	**–**	**–**	**47,762**
Other movements	**823**	**–**	**–**	**823**
Balance at 31 December	**93,698**	**–**	**–**	**93,698**

	2020			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	23,980	–	–	23,980
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease in short-term funds and placements with banks	(7,782)	–	–	(7,782)
Changes in PDs/LGDs/EADs	14,208	–	–	14,208
Changes in model assumption and methodologies	(4,780)	–	–	(4,780)
Other movements	1,313	–	–	1,313
Balance at 31 December	26,939	–	–	26,939

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for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2021				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000 (Note 1)	Gross impaired advances HK$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,311,907	4,890	–	3,572,238	189,360
– Property investment	9,234,649	25,854	–	6,211,905	19,223
– Financial concerns	9,924,730	3,960	–	472,409	–
– Stockbrokers	3,053,252	1,119	–	1,702,944	–
– Wholesale and retail trade	1,310,786	8,704	49,554	711,268	200,311
– Manufacturing	1,132,450	2,408	4,528	492,501	4,528
– Transport and transport equipment	3,084,343	16,532	10,988	435,570	15,423
– Recreational activities	449	–	–	–	–
– Information technology	1,154,061	2,727	–	42,750	–
– Others (Note 2)	6,922,934	19,122	5,275	4,316,291	5,474
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	384,733	49	–	384,705	383
– Loans for the purchase of other residential properties	8,596,787	637	926	8,513,698	23,279
– Credit card advances	57,279	211	269	–	269
– Others (Note 3)	5,496,591	7,450	2,281	3,180,879	8,760
	56,664,951	93,663	73,821	30,037,158	467,010
Trade finance	3,032,598	40,890	33,240	256,316	88,234
Loans for use outside Hong Kong	95,363,414	524,415	440,095	20,761,229	1,443,480
	155,060,963	658,968	547,156	51,054,703	1,998,724

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Loss allowance** (Continued)*

	31 December 2020				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000 (Note 1)	Gross impaired advances HK$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,323,019	4,664	–	3,848,626	–
– Property investment	10,905,346	11,777	370	7,138,033	20,972
– Financial concerns	6,903,546	2,466	–	473,072	–
– Stockbrokers	3,301,700	707	–	1,587,367	–
– Wholesale and retail trade	1,682,849	14,383	97,948	1,264,065	236,295
– Manufacturing	1,031,581	3,367	5,841	367,010	5,841
– Transport and transport equipment	1,238,341	24,582	221	677,341	2,705
– Recreational activities	483	–	–	483	–
– Information technology	1,767,848	11,264	–	46,459	–
– Others (Note 2)	7,032,379	31,925	4,757	3,763,159	5,033
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	442,339	63	48	442,358	1,461
– Loans for the purchase of other residential properties	8,996,177	760	2,740	8,956,824	28,832
– Credit card advances	62,232	315	617	–	617
– Others (Note 3)	4,637,113	4,662	1,123	3,580,255	8,665
	54,324,953	110,935	113,665	32,145,052	310,421
Trade finance	9,232,081	35,077	122,004	488,963	321,655
Loans for use outside Hong Kong	78,824,583	390,791	106,817	18,810,255	290,400
	142,381,617	536,803	342,486	51,444,270	922,476

Notes:
1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.
2. Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.
3. Major items mainly included loans to professionals and other individuals for various private purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Write-off

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2021 was HK$419,069,000 (31 December 2020: HK$99,907,000).

The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as at 31 December 2021 was HK$154,647,000 (31 December 2020: HK$91,006,000).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of individual credit assessment.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year and their respective effect on the Group's financial performance is considered immaterial.

	2021 HK$'000	2020 HK$'000
Advance to customers		
Amortised cost before modification	**89,118**	89,793

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets that best represent the maximum exposure to credit risk is disclosed on the next page.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure *(Continued)*

Geographical locations

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000 (Note 1)	Others HK$'000 (Note 2)	Total HK$'000
At 31 December 2021				
Short-term funds	**13,317,281**	**15,660,018**	**2,611,551**	**31,588,850**
Placements with banks	**–**	**525,627**	**–**	**525,627**
Derivative financial instruments	**290,059**	**249,616**	**864,167**	**1,403,842**
Financial assets at fair value through profit or loss	**–**	**742,019**	**–**	**742,019**
Financial assets measured at FVOCI	**14,178,037**	**35,160,069**	**3,090,595**	**52,428,701**
Financial assets measured at amortised cost	**142,803**	**2,974,727**	**–**	**3,117,530**
Advances and other accounts	**92,445,031**	**57,898,161**	**11,487,319**	**161,830,511**
	120,373,211	**113,210,237**	**18,053,632**	**251,637,080**
At 31 December 2020 (Note 3)				
Short-term funds	14,049,345	6,223,730	1,125,144	21,398,219
Placements with banks	1,005,128	472,974	1	1,478,103
Derivative financial instruments	300,298	241,434	1,103,718	1,645,450
Financial assets at fair value through profit or loss	–	124,053	–	124,053
Financial assets measured at FVOCI	16,146,446	27,787,260	6,179,571	50,113,277
Financial assets measured at amortised cost	230,287	2,212,552	91,840	2,534,679
Advances and other accounts	98,201,571	51,594,323	2,487,198	152,283,092
	129,933,075	88,656,326	10,987,472	229,576,873

Notes:
1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.
2. The countries reported in "Others" mainly included Canada, United States and other European countries.
3. Certain comparative figures have been restated to conform to the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

***Concentration of risks of financial assets with credit risk exposure** (Continued)*

Industry sectors

	Banks and other financial institutions HK$'000	Central governments and central banks HK$'000	Public sector entities HK$'000	Corporate entities HK$'000	Others HK$'000	Total HK$'000
At 31 December 2021						
Short-term funds	**19,091,647**	**12,497,203**	**–**	**–**	**–**	**31,588,850**
Placements with banks	**525,627**	**–**	**–**	**–**	**–**	**525,627**
Derivative financial instruments	**1,107,392**	**–**	**–**	**296,450**	**–**	**1,403,842**
Financial assets at fair value through profit or loss	**615,157**	**–**	**–**	**126,862**	**–**	**742,019**
Financial assets measured at FVOCI	**17,253,465**	**17,365,202**	**–**	**17,810,034**	**–**	**52,428,701**
Financial assets measured at amortised cost	**1,300,334**	**458,122**	**–**	**1,359,074**	**–**	**3,117,530**
Advances and other accounts	**17,691,530**	**2,675,029**	**748,128**	**123,930,612**	**16,785,212**	**161,830,511**
	57,585,152	**32,995,556**	**748,128**	**143,523,032**	**16,785,212**	**251,637,080**
At 31 December 2020 (Note)						
Short-term funds	8,710,464	12,687,755	–	–	–	21,398,219
Placements with banks	1,478,103	–	–	–	–	1,478,103
Derivative financial instruments	1,085,217	–	–	560,233	–	1,645,450
Financial assets at fair value through profit or loss	–	–	–	124,053	–	124,053
Financial assets measured at FVOCI	9,914,030	21,233,068	–	18,966,179	–	50,113,277
Financial assets measured at amortised cost	630,603	475,743	–	1,428,333	–	2,534,679
Advances and other accounts	15,863,285	2,933,034	1,472,104	114,628,625	17,386,044	152,283,092
	37,681,702	37,329,600	1,472,104	135,707,423	17,386,044	229,576,873

Note: Certain comparative figures have been restated to conform to the current year's presentation.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Debt securities

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group and the Bank by rating agency designation at the end of the reporting period, based on Moody's or equivalent ratings. Financial securities not rated by Moody's, or equivalent, are treated as unrated ones.

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
At 31 December 2021				
Aaa	**–**	**1,964,965**	**–**	**1,964,965**
Aa1 to Aa3	**–**	**11,540,823**	**135,836**	**11,676,659**
A1 to A3	**126,862**	**23,192,442**	**2,041,078**	**25,360,382**
Lower than A3	**–**	**12,822,602**	**586,570**	**13,409,172**
Unrated	**–**	**2,907,869**	**354,046**	**3,261,915**
Total	**126,862**	**52,428,701**	**3,117,530**	**55,673,093**
At 31 December 2020				
Aaa	–	2,120,375	–	2,120,375
Aa1 to Aa3	–	4,642,776	–	4,642,776
A1 to A3	122,702	27,522,291	1,551,324	29,196,317
Lower than A3	–	13,007,548	687,490	13,695,038
Unrated	1,351	2,820,287	295,865	3,117,503
Total	124,053	50,113,277	2,534,679	52,772,009

Repossessed collateral

Repossessed assets held by the Group as at 31 December 2021 was HK$77,960,000 (31 December 2020: HK$15,250,000).

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions. Market risk arising from trading portfolios is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate risk exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as FVOCI and amortised cost, and exposures arising from our daily risk management operations.

From time to time, the Group may use derivatives to mitigate market risk exposure driven by price fluctuation in interest rate and foreign exchange rate affecting trading and non-trading portfolios.

Market risk management

Market risk is measured in terms of value at risk ("VaR"), which is used to estimate potential losses on risk positions in the trading portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; Meanwhile, it is also subject to market risk exposure measurement by sensitivity of foreign exchange which are applied to the market risk positions within each risk type; The Group has maintained a controllable of market risk exposure (interest rate and foreign exchange risk) for both trading and customer order fulfillment managed by the Financial Markets Division within approved limits in day to day business.

The market risk positions are managed using risk limits approved by the Group. These limits are allocated across business lines and to the Group's legal entities. Daily risk monitoring is carried out independently by Market Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's market risk exposures are periodically reviewed by the Board, Risk Management Committee ("RMC") and senior management.

The Group has established standards, policies and procedures to control and monitor the market risk under the Board Risk Committee ("RC") and RMC management oversight. The Policy, together with limits and underlying assumptions therein, is subject to be regularly reviewed and approved by the RMC at least once a year.

The Bank adopts scenario-based approach in stress-testing. Stress tests are performed regularly to assess the potential losses under extreme market conditions. The Board, Risk Committee and senior management review stress test results on a regular basis.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Currency risk

The assets and liabilities of the Group are mainly denominated in United States dollars ("USD"), Renminbi ("RMB") and Hong Kong dollars ("HKD"). The Group adopts a policy of predominately matching the assets with liabilities in the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept to an acceptable level. The Group uses foreign exchange spot and forward contracts to manage its foreign currency risk.

The following tables indicate the concentration of currency risk at the end of each reporting periods:

	HKD HK$'000	USD HK$'000	RMB HK$'000	Others HK$'000 (Note)	Total HK$'000
At 31 December 2021					
Assets					
Cash and short-term funds	13,713,239	5,923,449	10,707,578	1,974,593	32,318,859
Placements with banks	6,695	162,565	356,367	–	525,627
Derivative financial instruments	62,833	1,234,303	–	106,706	1,403,842
Financial assets at fair value through profit or loss	–	–	742,019	–	742,019
Financial assets measured at FVOCI	12,772,896	28,338,782	8,088,486	3,312,050	52,512,214
Financial assets measured at amortised cost	362,391	2,019,560	629,796	105,783	3,117,530
Advances and other accounts	89,400,177	20,663,857	51,593,795	172,682	161,830,511
Total financial assets	116,318,231	58,342,516	72,118,041	5,671,814	252,450,602
Liabilities					
Deposits and balances of banks	339,670	1,180,198	6,131,590	19,825	7,671,283
Financial assets sold under repurchase agreements	–	–	2,036,268	–	2,036,268
Deposits from customers	114,194,325	20,631,291	61,982,104	4,279,388	201,087,108
Derivative financial instruments	59,615	1,674	–	2,100,640	2,161,929
Certificates of deposit	–	1,597,765	–	–	1,597,765
Loan capital	–	3,009,489	–	–	3,009,489
Other financial liabilities	1,089,420	207,357	1,250,182	278,404	2,825,363
Total financial liabilities	115,683,030	26,627,774	71,400,144	6,678,257	220,389,205
Net position – total financial assets and liabilities	635,201	31,714,742	717,897	(1,006,443)	32,061,397

Note: Currencies included in "Others" mainly represented Macau Pataca, Australian dollars and New Zealand dollars.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

***Currency risk** (Continued)*

	HKD HK$'000	USD HK$'000	RMB HK$'000	Others HK$'000 (Note)	Total HK$'000
At 31 December 2020					
Assets					
Cash and short-term funds	13,257,591	811,395	7,389,939	341,718	21,800,643
Placements with banks	104,420	1,034,839	338,844	–	1,478,103
Derivative financial instruments	1,478,780	138,498	28,172	–	1,645,450
Financial assets at fair value through profit or loss	91	–	124,053	–	124,144
Financial assets measured at FVOCI	10,625,977	28,827,185	6,415,777	4,325,990	50,194,929
Financial assets measured at amortised cost	2,000	1,823,053	551,087	158,539	2,534,679
Advances and other accounts	87,161,293	19,720,785	45,221,242	179,772	152,283,092
Total financial assets	112,630,152	52,355,755	60,069,114	5,006,019	230,061,040
Liabilities					
Deposits and balances of banks	257,286	420,042	7,552,246	–	8,229,574
Financial assets sold under repurchase agreements	–	7,978	778,562	–	786,540
Deposits from customers	108,704,370	19,117,190	51,370,342	4,036,389	183,228,291
Derivative financial instruments	1,447,557	2,261,863	36,026	30,036	3,775,482
Certificates of deposit	130,006	2,421,524	–	–	2,551,530
Loan capital	–	3,033,178	–	–	3,033,178
Other financial liabilities	1,554,690	592,429	1,083,717	10,972	3,241,808
Total financial liabilities	112,093,909	27,854,204	60,820,893	4,077,397	204,846,403
Net position – total financial assets and liabilities	536,243	24,501,551	(751,779)	928,622	25,214,637

Note: Currencies included in "Others" mainly represented Macau Pataca, Australian dollars and New Zealand dollars.

The Group entered into a number of foreign currency forward contracts to manage the currency risk exposure, details of which are set out in note 18.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

***Currency risk** (Continued)*

Foreign currency sensitivity analysis

The Group mainly exposes to USD and RMB. The following table illustrates sensitivity measure of the currency risk exposure given ±1 and ±5 (2020: ±1 and ±5) per cent change in exchange rate of USD/RMB against Hong Kong dollars.

	Change in currency rate			
	USD		RMB	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK$'000)				
2021				
Profit after tax	**63,200**	**(63,200)**	**(180)**	**180**
Other comprehensive income (after tax)	**–**	**–**	**234,157**	**(234,157)**

	Change in currency rate			
	USD		RMB	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK$'000)				
2020				
Profit after tax	76,748	(76,748)	5,702	(5,702)
Other comprehensive income (after tax)	–	–	225,084	(225,084)

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favor of the Bank, but also result negative impacts in the event that unexpected or adverse movement arises.

Interest rate risk comprises those originating from both trading and non-trading portfolios, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the management of Group's interest rate risk in banking book ("IRRBB") is governed by the Interest Rate Risk Management Policy which is reviewed and endorsed by the ALCO and approved by the EXCO. the Group also manages its IRRBB within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight. In trading portfolio, specific limits are approved by RMC on interest rate sensitivities (also known as DV01) and stop loss, which are monitored on a daily basis. The Group maintains manageable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified as the trading purpose.

The Group also manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary, and non-hedged positions will contain within the normal banking businesses where the risks originate.

Interest rate risk in banking book

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

The Group manages its IRRBB exposures using economic value as well as earnings based measures.

The economic value is measured from present values of its expected net cash flows of assets, liabilities and off-balance sheet positions held with the Bank, discounted to reflect market rates. Thereby the Group measures the change in Economic Value of Equity ("ΔEVE") as the maximum decrease of the banking book economic value under the six standard scenarios defined by the HKMA's Supervisory Policy Manual.

Earnings-based measures the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten the financial stability by undermining its capital adequacy and by reducing market confidence in it. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

***Interest rate risk** (Continued)*

Interest rate risk in banking book (Continued)

The calculation of the IRRBB gapping is processed through an automatic system on a daily basis. Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cash flows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various business models, including prepayment model, early-redemption model and behavioural models for non-maturity deposits ("NMDs").

The Group manages the interest rate risk exposure for its NMDs through Co-integration Model for Deposit Volume on core deposit ratio and decay rate Approach on behavioural maturity. For the core deposit ratio, the Group followed regulatory guidelines by first estimating stable deposit ratio using the Group's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Group aimed to measure the percentage of stable deposits that would remain with the bank even under significant interest rate changes. In estimating behavioural maturity, the Group followed the run-off approach, which estimates the decay rate of the deposit balance. The behavioural maturity was obtained based on the decay-rate estimates.

In the loan and some of the term deposit products, the Group takes into accounts of early prepayment/withdrawal behaviour of its customers. The parameters are based on historical observations, statistical analyses and expert assessments. Furthermore, the Group generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive with forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Group conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk (Continued)

	Up to 3 months HK$'000	3–12 months HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2021						
Assets						
Cash and short-term funds	31,297,050	480,165	–	–	541,644	32,318,859
Placements with banks	80,415	445,212	–	–	–	525,627
Derivative financial instruments	130,197	18,476	–	–	1,255,169	1,403,842
Financial assets at fair value through profit or loss	–	–	–	126,862	615,157	742,019
Financial assets measured at FVOCI	32,498,383	12,805,310	5,738,471	1,386,537	83,513	52,512,214
Financial assets measured at amortised cost	1,309,511	1,806,019	–	–	2,000	3,117,530
Advances and other accounts	32,465,261	46,831,244	56,107,878	23,655,466	2,770,662	161,830,511
Total financial assets	97,780,817	62,386,426	61,846,349	25,168,865	5,268,145	252,450,602
Liabilities						
Deposits and balances of banks	3,388,663	4,281,950	–	–	670	7,671,283
Financial assets sold under repurchase agreements	2,036,268	–	–	–	–	2,036,268
Deposits from customers	170,204,884	17,226,190	13,601,925	–	54,109	201,087,108
Derivative financial instruments	460,435	479,302	–	–	1,222,192	2,161,929
Certificates of deposit	1,208,273	389,492	–	–	–	1,597,765
Loan capital	–	3,009,489	–	–	–	3,009,489
Other financial liabilities	336,340	97,757	172,133	–	2,219,133	2,825,363
Total financial liabilities	177,634,863	25,484,180	13,774,058	–	3,496,104	220,389,205
Net position – total financial assets and liabilities	(79,854,046)	36,902,246	48,072,291	25,168,865	1,772,041	32,061,397

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk (Continued)

	Up to 3 months HK$'000	3–12 months HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2020						
Assets						
Cash and short-term funds	21,195,689	144,777	–	–	460,177	21,800,643
Placements with banks	1,020,886	457,217	–	–	–	1,478,103
Derivative financial instruments	184,985	36,656	–	–	1,423,809	1,645,450
Financial assets at fair value through profit or loss	124,053	–	–	–	91	124,144
Financial assets measured at FVOCI	23,939,565	20,196,156	3,743,339	2,234,217	81,652	50,194,929
Financial assets measured at amortised cost	1,077,536	1,359,847	97,296	–	–	2,534,679
Advances and other accounts	29,536,449	45,507,230	52,826,443	15,446,182	8,966,788	152,283,092
Total financial assets	77,079,163	67,701,883	56,667,078	17,680,399	10,932,517	230,061,040
Liabilities						
Deposits and balances of banks	6,324,232	1,894,008	–	–	11,334	8,229,574
Financial assets sold under repurchase agreements	786,540	–	–	–	–	786,540
Deposits from customers	153,905,136	18,894,087	10,328,185	58,943	41,940	183,228,291
Derivative financial instruments	1,002,746	1,376,676	–	–	1,396,060	3,775,482
Certificates of deposit	130,006	2,421,524	–	–	–	2,551,530
Loan capital	–	–	3,033,178	–	–	3,033,178
Other financial liabilities	224,963	133,934	311,806	73,003	2,498,102	3,241,808
Total financial liabilities	162,373,623	24,720,229	13,673,169	131,946	3,947,436	204,846,403
Net position – total financial assets and liabilities	(85,294,460)	42,981,654	42,993,909	17,548,453	6,985,081	25,214,637

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

Interest rate sensitivity

The framework adopted by the Group to measure interest rate risk exposure arising from its banking book positions is consistent with the guidelines set out by the HKMA in its Supervisory Policy Manual ("SPM") on Interest Rate Risk in the Banking Book. Sensitivities of earnings or economic value of equity ("EVE") to interest rate changes by specific size of interest rate parallel shocks and key assumptions as required by SPM are summarised below:

	2021			
	HKD HK$'000	USD HK$'000	CNY HK$'000	CNH HK$'000
Size of interest rate parallel shocks (bps)	**200**	**200**	**250**	**250**
Impact on earnings over the next 12 months (parallel up) (Note)	**(767,000)**	**23,000**	**62,000**	**2,000**
Impact on EVE (parallel up) (Note)	**–**	**–**	**1,027,000**	**6,000**

	2020			
	HKD HK$'000	USD HK$'000	CNY HK$'000	CNH HK$'000
Size of interest rate parallel shocks (bps)	200	200	250	250
Impact on earnings over the next 12 months (parallel up) (Note)	(540,000)	(115,000)	(5,000)	(15,000)
Impact on EVE (parallel up) (Note)	–	–	1,030,000	–

Note: Positive impact means unfavourable to the Group.

The key assumptions are as follows:

– exclusion of spread components in the cash flows used in the computation or discount rate either for ΔEVE;

– determination of behavioural modelling in accordance with the Group's business regions;

– estimation of the prepayment rates of customer loans and the early withdrawal rates for time deposits, the Group adopted the model derived at the account level with using logistic regression with clustered standard errors. The fixed-rate retail loan and retail term deposit portfolios were assumed to follow a run-off mode, with no new originations or auto-renewal in the forecast; and

– estimation of behavioural maturity of HKD non-maturity deposits ("NMDs"), the Group adopted the run-off approach, which estimates the decay rate of the current and saving deposit respectively.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

Interbank Offered Rates ("IBORS") Transition

IBOR transition is the process of preparation for the replacement of the Inter-bank Offered Rate (IBOR) by alternative risk-free rates. UK Financial Conduct Authority (FCA) announced that all London Inter-bank Offered Rate settings will either cease to be provided by any administrator or no longer be representative after 30 June 2023. This transition impacts the Group's outstanding financial derivatives and interest rate sensitive assets and liabilities.

A bankwide project workgroup has been established to push a series of system enhancements in order to accommodate the Group with the IBOR transition, including risk management perspective. Market risk limits such as value-at-risk and interest rate sensitivities are still effective and valid for risk management. The Group aims to put system and process changes in place to help achieving the IBOR transition.

The following table illustrates the Group's exposures to the IBOR benchmarks yet to transition to alternative benchmarks. Amounts in respect of financial instruments are that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to be ceased; and
- are recognized on the Group's consolidated balance sheet.

	2021		2020	
	USD LIBOR HK$'000	GBP LIBOR HK$'000	USD LIBOR HK$'000	GBP LIBOR HK$'000
Non-derivative financial assets (Note)	**680,652**	**158,028**	1,050,000	159,057
Non-derivative financial liabilities	**–**	**–**	–	–
Derivative notional contract amount	**16,521,317**	**–**	20,125,890	–

Note: Gross carrying amount excluding allowance for expected credit losses.

Price risk

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as FVPL, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2021 Change in price		2020 Change in price	
	+10% HK$'000	–10% HK$'000	+10% HK$'000	–10% HK$'000
Profit after tax	**–**	**–**	8	(8)
Other comprehensive income (after tax)	**3,412**	**(3,412)**	3,338	(3,338)

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to fund increases in assets or meet obligations as they fall due, without incurring unacceptable losses. Liquidity problems can have an adverse impact to the Group's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Group which is otherwise solvent.

Management of liquidity risk

Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Group conducts cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2"). This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

Governance of liquidity risk management

The Group adopts a robust liquidity risk appetite/tolerance including statutory liquidity ratios and key liquidity metrics to reasonably balance the levels of risk and earnings based on the Bank's own strategies, financial strength and market position, to ensure its ability to provide stable, reliable and sufficient sources of funds under normal or stressed scenarios, so as to satisfy liquidity requirements.

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches outside Hong Kong in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and designated committees and approved by the Board. Key features of liquidity position, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The Board has the ultimate responsibility for liquidity risk management. The Executive Committee ("EXCO") is delegated by the Board to oversee liquidity risk management. The ALCO is further delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through on-going and periodic review of different liquidity metrics, including but not limited to the statutory Liquidity Maintenance Ratio and Core Funding Ratio, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Division is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, Liquidity Maintenance Ratio, liquidity and funding statements.

The liquidity risk metrics are closely monitored and regularly reported to the ALCO and other designated committees. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or other designated committees, whilst seeking their advices or instructions on mitigating measures.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

***Management of liquidity risk** (Continued)*

With the changing environment, market factors, balance sheet movement and liquidity situation, liquidity risk strategies are discussed in the ALCO meetings and communicated with the business lines, of which the heads are the ALCO members. The Liquidity Risk Management Policy which consists of liquidity risk appetite and management strategies is approved by the Board at least annually.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as at the end of the reporting period as stated in their contracts.

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
Liabilities adjusted with interest payable								
At 31 December 2021								
Deposits and balances of banks	**51,297**	**2,110,514**	**1,253,912**	**4,282,592**	**167**	**-**	**-**	**7,698,482**
Financial assets sold under repurchase agreement	**-**	**869,883**	**1,166,385**	**-**	**-**	**-**	**-**	**2,036,268**
Deposits from customers	**79,823,457**	**43,496,863**	**47,198,515**	**17,340,891**	**13,601,927**	**-**	**-**	**201,461,653**
Certificate of deposits	**-**	**1,169,505**	**38,984**	**389,835**	**-**	**-**	**-**	**1,598,324**
Loan capital	**-**	**-**	**-**	**115,743**	**462,971**	**3,101,879**	**-**	**3,680,593**
Other financial liabilities	**662,745**	**132,053**	**446,629**	**770,920**	**181,564**	**-**	**1,032,998**	**3,226,909**
Total undiscounted financial liabilities	**80,537,499**	**47,778,818**	**50,104,425**	**22,899,981**	**14,246,629**	**3,101,879**	**1,032,998**	**219,702,229**
Liabilities adjusted with interest payable								
At 31 December 2020								
Deposits and balances of banks	663,633	3,458,008	2,239,456	1,894,008	–	–	–	8,255,105
Financial assets sold under repurchase agreements	–	778,562	7,983	–	–	–	–	786,545
Deposits from customers	65,386,798	52,143,525	37,174,754	19,065,902	10,382,668	–	–	184,153,647
Certificates of deposit	–	–	130,330	2,439,763	–	–	–	2,570,093
Loan capital	–	–	–	115,591	462,365	3,213,412	–	3,791,368
Other financial liabilities	1,145,344	272,553	539,469	452,032	341,056	73,003	1,161,604	3,985,061
Total undiscounted financial liabilities	67,195,775	56,652,648	40,091,992	23,967,296	11,186,089	3,286,415	1,161,604	203,541,819

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk *(Continued)*

The following tables detail the Group's expected maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2021						
Derivatives settled net						
Interest rate contracts						
– Outflows	**(6,316)**	**(4,637)**	**(335,640)**	**(1,101,895)**	**(180,352)**	**(1,628,840)**
Derivatives settled gross						
Exchange rate contracts						
– Inflows	**152,507,834**	**27,267,914**	**31,266,828**	**5,372,722**	**–**	**216,415,298**
– Outflows	**(152,508,124)**	**(27,247,915)**	**(31,237,672)**	**(5,380,456)**	**–**	**(216,374,167)**
	(290)	**19,999**	**29,156**	**(7,734)**	**–**	**41,131**
At 31 December 2020						
Derivatives settled net						
Interest rate contracts						
– Outflows	(8,965)	(94,549)	(495,843)	(1,600,643)	(435,173)	(2,635,173)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	96,952,031	9,044,304	34,643,857	7,904,734	–	148,544,926
– Outflows	(96,940,507)	(9,047,747)	(34,621,727)	(7,914,384)	–	(148,524,365)
	11,524	(3,443)	22,130	(9,650)	–	20,561

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk *(Continued)*

The dates of the contractual amounts of the Group's commitments and contingencies unrecorded in the statements of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 36 to the consolidated financial statements and summarised in the table below:

	As at 31 December 2021 No later than 1 year HK$'000	As at 31 December 2020 No later than 1 year HK$'000
Direct credit substitutes	**2,141,968**	2,686,382
Trade-related contingencies	**263,208**	659,450
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	**7,299,789**	11,002,248
	9,704,965	14,348,080

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on-and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators of which exceptions should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions which give rise to the need of providing liquidity support.

Funding strategies

The Group has a strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements and swap markets. The Bank takes into account the maturity profile of funding. For wholesale funding, usually it is below 1 month for interbank borrowing, 3 to 6 months for repo and up to 1 year for certificate of deposits. The funding strategy is centralized through the ALCO and delivered to Treasury Division and different business lines to execute. All of these are parts of the Group's funding strategy. To manage the funding diversification. a set of concentration indicators and EWIs is in place.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to pre-set limits so as to encourage them to source their own funding in the local markets.

Liquidity risk mitigation techniques

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Liquidity risk mitigation techniques *(Continued)*

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Basic Criteria	At 31 December 2021 HK$'000	At 31 December 2020 HK$'000
Tier 1	Debt Securities issued by sovereigns or central banks with 0% risk-weight	**12,932,908**	5,677,868
Tier 2	Other investment grade debt securities	**27,301,025**	25,325,489

The Group's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. The ALCO reviews the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the supervisory policy manual LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO, the RMC and the EXCO, approved by the RC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Stress-testing *(Continued)*

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on – and off-balance sheet items with applicable hypothetical, historical and behavioural assumptions are considered to address both funding and market liquidity risks. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain, Bank Run and recovery zone. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress – testing performed.

The Group's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would be called during liquidity crisis to ensure business continuity of the Group.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, drill test is conducted by the Group on an annual basis.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2021								
Assets								
Cash and short-term funds	15,318,192	16,504,698	194,619	301,350	-	-	-	32,318,859
Placements with banks	-	-	70,217	455,410	-	-	-	525,627
Derivative financial instruments	1,954	1,044,622	46,936	145,888	152,496	11,946	-	1,403,842
Financial assets at fair value through profit or loss	-	-	-	-	615,157	126,862	-	742,019
Financial assets measured at FVOCI	-	8,567,191	9,581,521	4,468,572	23,623,154	6,188,263	83,513	52,512,214
Financial assets measured at amortised cost	-	-	191,532	1,630,772	1,293,226	2,000	-	3,117,530
Advances and other accounts	5,873,502	8,564,540	14,245,956	35,567,254	63,375,543	32,506,632	1,697,084	161,830,511
Total financial assets	21,193,648	34,681,051	24,330,781	42,569,246	89,059,576	38,835,703	1,780,597	252,450,602
Liabilities								
Deposits and balances of banks	25,492	2,109,991	1,253,850	4,281,950	-	-	-	7,671,283
Financial assets sold under repurchase agreements	-	869,883	1,166,385	-	-	-	-	2,036,268
Deposits from customers	79,589,672	43,491,153	47,072,747	17,331,611	13,601,925	-	-	201,087,108
Derivative financial instruments	1,904	1,044,652	38,149	125,854	618,040	333,330	-	2,161,929
Certificates of deposit	-	1,169,261	39,013	389,491	-	-	-	1,597,765
Loan capital	-	-	-	-	-	3,009,489	-	3,009,489
Lease liabilities	-	14,644	27,424	123,480	309,508	13,995	-	489,051
Other financial liabilities	403,155	116,000	298,954	672,681	44,709	2,853	797,960	2,336,312
Total financial liabilities	80,020,223	48,815,584	49,896,522	22,925,067	14,574,182	3,359,667	797,960	220,389,205
Net position – total financial assets and liabilities	(58,826,575)	(14,134,533)	(25,565,741)	19,644,179	74,485,394	35,476,036	982,637	32,061,397
Of which debt securities included in:								
FVOCI	-	8,567,191	9,581,521	4,468,572	23,623,154	6,188,263	-	52,428,701
Amortised cost	-	-	191,532	1,630,772	1,293,226	2,000	-	3,117,530
	-	8,567,191	9,773,053	6,099,344	24,916,380	6,190,263	-	55,546,231

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

***Analysis of assets and liabilities by remaining maturity** (Continued)*

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2020								
Assets								
Cash and short-term funds	16,384,663	4,942,360	328,846	144,774	–	–	–	21,800,643
Placements with banks	–	–	1,333,326	144,777	–	–	–	1,478,103
Derivative financial instruments	–	1,103,199	56,678	292,615	169,530	23,428	–	1,645,450
Financial assets at fair value through profit or loss	–	–	1,351	–	–	122,702	91	124,144
Financial assets measured at FVOCI	–	3,633,151	2,956,528	7,100,505	23,761,252	12,661,841	81,652	50,194,929
Financial assets measured at amortised cost	–	–	72,829	357,025	2,104,825	–	–	2,534,679
Advances and other accounts	8,049,428	9,481,905	15,245,681	37,862,110	57,887,697	22,120,248	1,636,023	152,283,092
Total financial assets	24,434,091	19,160,615	19,995,239	45,901,806	83,923,304	34,928,219	1,717,766	230,061,040
Liabilities								
Deposits and balances of banks	637,828	3,458,282	2,239,456	1,894,008	–	–	–	8,229,574
Financial assets sold under repurchase agreements	–	778,562	7,978	–	–	–	–	786,540
Deposits from customers	65,152,855	51,856,834	36,939,804	18,896,130	10,382,668	–	–	183,228,291
Derivative financial instruments	–	1,088,850	66,524	309,739	1,094,416	1,215,953	–	3,775,482
Certificates of deposit	–	–	130,006	2,421,524	–	–	–	2,551,530
Loan capital	–	–	–	–	–	3,033,178	–	3,033,178
Lease liabilities	–	15,453	31,427	119,326	267,384	73,003	–	506,593
Other financial liabilities	885,754	47,064	361,289	205,832	73,672	–	1,161,604	2,735,215
Total financial liabilities	66,676,437	57,245,045	39,776,484	23,846,559	11,818,140	4,322,134	1,161,604	204,846,403
Net position – total financial assets and liabilities	(42,242,346)	(38,084,430)	(19,781,245)	22,055,247	72,105,164	30,606,085	(556,162)	25,214,637
Of which debt securities included in:								
FVOCI	–	3,633,151	2,956,528	7,100,505	23,761,252	12,661,841	–	50,113,277
Amortised cost	–	–	72,829	357,025	2,104,825	–	–	2,534,679
	–	3,633,151	3,029,357	7,457,530	25,866,077	12,661,841	–	52,647,956

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Except as detailed in the following tables, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount		Fair value	
	2021 HK$'000	2020 HK$'000	2021 HK$'000	2020 HK$'000
Financial assets				
– measured at amortised cost	**3,117,530**	2,534,679	**3,145,066**	2,550,105
Financial liabilities				
– Loan capital	**3,009,489**	3,033,178	**2,982,892**	2,956,919

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2021				
Financial assets measured at amortised cost	**3,145,066**	**–**	**–**	**3,145,066**
Loan capital	**–**	**2,982,892**	**–**	**2,982,892**
At 31 December 2020				
Financial assets measured at amortised cost	2,550,105	–	–	2,550,105
Loan capital	–	2,956,919	–	2,956,919

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Please refer to next section for the definition of fair value hierarchy.

The fair values of listed securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of debt securities classified as FVOCI, debt securities classified as amortised cost and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of trade bills classified as FVOCI are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

There were no changes in the Group's valuation techniques during the year.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION *(Continued)*

	Fair value hierarchy Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2021				
Financial assets measured at fair value through profit or loss				
Equity securities	**–**	**–**	**–**	**–**
Debt securities	**126,862**	**–**	**–**	**126,862**
Other securities	**–**	**615,157**	**–**	**615,157**
Financial assets measured at FVOCI				
Equity securities	**40,859**	**–**	**42,654**	**83,513**
Debt securities	**52,016,265**	**412,436**	**–**	**52,428,701**
Trade bills	**–**	**8,339,820**	**–**	**8,339,820**
Derivative financial assets not used for hedging	**–**	**1,339,175**	**–**	**1,339,175**
Derivative financial assets used for hedging	**–**	**64,667**	**–**	**64,667**
Derivative financial liabilities not used for hedging	**–**	**(1,303,274)**	**–**	**(1,303,274)**
Derivative financial liabilities used for hedging	**–**	**(858,655)**	**–**	**(858,655)**
Total	**52,183,986**	**8,609,326**	**42,654**	**60,835,966**
At 31 December 2020				
Financial assets measured at fair value through profit or loss				
Equity securities	91	–	–	91
Debt securities	124,053	–	–	124,053
Financial assets measured at FVOCI				
Equity securities	39,972	–	41,680	81,652
Debt securities	49,736,466	376,811	–	50,113,277
Trade bills	–	5,176,771	–	5,176,771
Derivative financial assets not used for hedging	–	1,559,121	–	1,559,121
Derivative financial assets used for hedging	–	86,329	–	86,329
Derivative financial liabilities not used for hedging	–	(1,539,766)	–	(1,539,766)
Derivative financial liabilities used for hedging	–	(2,235,716)	–	(2,235,716)
Total	49,900,582	3,423,550	41,680	53,365,812

There were no transfers between Levels 1, 2 and 3 during 2021 and 2020.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI HK$'000
Balance at 1 January 2020	39,884
Exchange difference	1,796
Balance at 31 December 2020 and 1 January 2021	41,680
Exchange difference	**974**
Balance at 31 December 2021	**42,654**

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.02% (2020: 0.02%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments. If the carrying amount of these investments would be increased (decreased) by 5%, the impact on other comprehensive income would be increased (decreased) by HK$2,132,700 (2020: HK$2,084,000) respectively.

Of the total net gains or losses for the year included in other comprehensive income, there was nil (2020: nil) related to financial assets measured at FVOCI held at the end of the reporting period.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements of financial position; or

- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position		Net amounts HK$'000
				Financial instruments HK$'000	Cash/financial collateral received HK$'000 (Note)	
At 31 December 2021						
Derivatives – interest rate swaps	46,091	-	46,091	(41,057)	(5,024)	10
Derivatives – foreign currency forward contracts	919,951	-	919,951	(504,615)	(182,448)	232,888
FVOCI debt securities	-	-	-	-	-	-
Amounts due from HKSCC and brokerage clients	285,687	(44,796)	240,891	-	-	240,891
Total	1,251,729	(44,796)	1,206,933	(545,672)	(187,472)	473,789

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position		Net amounts HK$'000
				Financial instruments HK$'000	Cash/financial collateral pledged HK$'000 (Note)	
At 31 December 2021						
Derivatives – interest rate swaps	395,652	-	395,652	(41,057)	(354,595)	-
Derivatives – foreign currency forward contracts	733,223	-	733,223	(508,289)	(188,492)	36,442
Financial assets sold under repurchase agreements	-	-	-	-	-	-
Amounts due to HKSCC and brokerage clients	160,519	(44,796)	115,723	-	-	115,723
Total	1,289,394	(44,796)	1,244,598	(549,346)	(543,087)	152,165

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position Financial instruments HK$'000	 Cash/financial collateral received HK$'000 (Note)	Net amounts HK$'000
At 31 December 2020						
Derivatives – interest rate swaps	88,487	–	88,487	(83,471)	(238,134)	(233,118)
Derivatives – foreign currency forward contracts	1,156,634	–	1,156,634	(635,236)	(332,385)	189,013
FVOCI debt securities	8,804	–	8,804	(7,978)	–	826
Amounts due from HKSCC and brokerage clients	728,189	(188,122)	540,067	–	–	540,067
Total	1,982,114	(188,122)	1,793,992	(726,685)	(570,519)	496,788

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position Financial instruments HK$'000	 Cash/financial collateral pledged HK$'000 (Note)	Net amounts HK$'000
At 31 December 2020						
Derivatives – interest rate swaps	1,271,548	–	1,271,548	(83,471)	(1,208,042)	(19,965)
Derivatives – foreign currency forward contracts	1,262,204	–	1,262,204	(635,236)	(820,321)	(193,353)
Financial assets sold under repurchase agreements	7,978	–	7,978	(7,978)	–	–
Amounts due to HKSCC and brokerage clients	562,921	(188,122)	374,799	–	–	374,799
Total	3,104,651	(188,122)	2,916,529	(726,685)	(2,028,363)	161,481

Note: The cash and financial collateral received/pledged as at 31 December 2021 and 31 December 2020 represent in fair value.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position that are disclosed in the above tables are measured in the statements of financial position on the following basis:

– derivative financial assets and liabilities – fair value;

– financial assets sold under repurchase agreements – amortised cost;

– FVOCI debt securities – fair value;

– amortised cost debt securities – amortised cost; and

– amounts due from or due to HKSCC and brokerage clients – amortised cost.

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities except for FVOCI, which are measured on different basis as the related financial assets sold under repurchase agreements. The directors of the Group consider there are no material differences arising from the measuring differences.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

Types of financial assets	2021 HK$'000	2020 HK$'000
Derivatives – interest rate swaps as stated above	**46,091**	88,487
Derivatives – foreign currency forward contracts as stated above	**919,951**	1,156,634
	966,042	1,245,121
Derivative financial assets not in scope of offsetting disclosures	**437,800**	400,329
Total derivative financial assets stated in note 18	**1,403,842**	1,645,450
FVOCI debt securities as stated above	**–**	8,804
FVOCI securities not in scope of offsetting disclosures	**52,512,214**	50,186,125
Total FVOCI securities stated in note 19	**52,512,214**	50,194,929
Amortised cost securities not in scope of offsetting disclosures	**3,117,530**	2,534,679
Total amortised cost securities stated in note 19	**3,117,530**	2,534,679
Amount due from HKSCC and brokerage clients as stated above	**240,891**	540,067
Other accounts not in scope of offsetting disclosures	**5,343,765**	8,366,346
Total other accounts stated in note 21	**5,584,656**	8,906,413

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2021 HK$'000	2020 HK$'000
Derivatives – interest rate swaps as stated above	**395,652**	1,271,548
Derivatives – foreign currency forward contracts as stated above	**733,223**	1,262,204
	1,128,875	2,533,752
Derivative financial liabilities not in scope of offsetting disclosures	**1,033,054**	1,241,730
Total derivative financial liabilities stated in note 18	**2,161,929**	3,775,482
Financial assets sold under repurchase agreements as stated above	**–**	7,978
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	**2,036,268**	778,562
Financial assets sold under repurchase agreements stated in note 26	**2,036,268**	786,540
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	**115,723**	374,799
Total other accounts and accruals not in scope of offsetting disclosures	**2,709,640**	2,867,009
Total other accounts and accruals as stated in note 35	**2,825,363**	3,241,808

9. NET INTEREST INCOME

	2021 HK$'000	2020 HK$'000
Interest income		
Balances and placements with central bank and banks	**277,451**	365,630
Investments in securities	**751,184**	976,433
Loans and advances	**4,379,340**	4,223,679
	5,407,975	5,565,742
Interest expense		
Deposits and balances of banks	**(169,901)**	(197,286)
Deposits from customers	**(1,811,008)**	(2,199,871)
Financial assets sold under repurchase agreements	**(43,894)**	(49,147)
Certificates of deposit	**(9,504)**	(26,528)
Loan capital in issue	**(72,289)**	(149,300)
Lease liabilities	**(15,656)**	(17,058)
	(2,122,252)	(2,639,190)
Net interest income	**3,285,723**	2,926,552
Included within interest income		
Interest income on impaired loans and advances	**10,063**	10,792

Included within interest income and interest expense are HK$5,407,975,000 (2020: HK$5,565,742,000) and HK$2,122,252,000 (2020: HK$2,639,190,000) earned and incurred from financial assets and financial liabilities that are not recognised at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK$751,184,000 (2020: HK$976,433,000).

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10. NET FEE AND COMMISSION INCOME

	2021 HK$'000	2020 HK$'000
Fee and commission income		
Securities dealings	**162,561**	163,532
Loans, overdrafts and guarantees	**199,486**	102,231
Trade finance	**12,351**	14,099
Credit card services	**103,940**	79,742
Agency services	**117,346**	122,798
Others	**28,938**	30,815
Total fee and commission income	**624,622**	513,217
Less: Fee and commission expenses	**(95,183)**	(78,890)
Net fee and commission income	**529,439**	434,327
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not recognised at fair value through profit or loss		
– Fee income	**228,536**	191,011
– Fee expenses	**(88,901)**	(73,289)
	139,635	117,722

11. NET INCOME FROM TRADING AND INVESTMENTS

	2021 HK$'000	2020 HK$'000
Foreign exchange gains	**307,216**	177,450
Net gains on financial instruments at fair value through profit or loss	**32,013**	16,584
Net (losses) gains on fair value hedge:		
– Net (losses) gains on hedged items attributable to the hedged risk	**(968,822)**	1,604,785
– Net gains (losses) on hedging instruments	**968,415**	(1,597,782)
Net gains on disposal of FVOCI debt securities	**68,686**	57,416
	407,508	258,453

"Foreign exchange gains" includes net gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency ("original currency") into another currency ("swap currency") at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the surplus funds in the original currency and swap currency are recognised as "Foreign exchange gains".

Net gains on disposal of the FVOCI debt securities were included in the net income from trading and investments of the Group which form part of the business operation. This is to in line with the current business model of the Group.

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for the year ended 31 December 2021

12. OTHER OPERATING INCOME

	2021 HK$'000	2020 HK$'000
Dividend income		
– Listed investments	**6,521**	7,674
– Unlisted investments	**2,455**	4,295
	8,976	11,969
Gross rents from investment properties	**8,007**	9,038
Less: Outgoings	**(507)**	(355)
Net rental income	**7,500**	8,683
Net gain on disposal of financial instruments measured at amortised cost	**4**	110
Safe deposit box rentals	**58,037**	62,084
Net insurance income (Note)	**17,200**	19,639
Other banking services income	**80,593**	79,679
Gain on retirement benefit	**–**	499
Others	**1,475**	6,722
	173,785	189,385

Note: Details of net insurance income are as follows:

	2021 HK$'000	2020 HK$'000
Gross insurance premium income	**39,953**	37,733
Reinsurers' share of gross insurance premium income	**(11,183)**	(10,939)
	28,770	26,794
Decrease in gross outstanding claims	**2,032**	14,383
Gross claim paid	**(18,801)**	(21,794)
	(16,769)	(7,411)
Decrease in recoverable from reinsurance of outstanding claims	**(217)**	(4,830)
Reinsurance claims recoveries	**2,947**	2,343
	2,730	(2,487)
Net insurance commission income	**2,469**	2,743
Net insurance income	**17,200**	19,639

13. OPERATING EXPENSES

	2021 HK$'000	2020 HK$'000
Auditor's remuneration		
– Audit services – current year	**8,418**	8,038
– Audit services – under provision in prior year	**–**	380
– Non-audit services	**3,164**	1,492
Total auditor's remuneration	**11,582**	9,910
Staff costs (including directors' emoluments)		
– Salaries and other costs	**1,104,770**	1,062,593
– Retirement benefits scheme contributions	**64,736**	51,393
– Equity settled share-based payment	**(2,201)**	6,023
– Government grant – Employment Support Scheme (Note 1)	**–**	(39,015)
– Capitalised to intangible assets	**(23,788)**	(49,464)
Total staff costs	**1,143,517**	1,031,530
Depreciation		
– Property and equipment	**94,963**	80,433
– Right-of-use assets	**206,693**	202,873
– Government grants (Note 2)	**(6,175)**	(4,534)
	295,481	278,772
Amortisation of intangible assets	**47,203**	4,492
Premises and equipment expenses, excluding depreciation		
– Government rent and rates for premises	**8,469**	7,772
– Expenses relating to short-term leases	**2,461**	1,709
– Expenses relating to leases of low-value assets	**35**	50
– Capitalised to intangible assets	**(1,866)**	(2,739)
– Others	**10,271**	11,507
	19,370	18,299
Other operating expenses	**354,938**	319,792
– Capitalised to intangible assets	**(1,081)**	(1,491)
	353,857	318,301
	1,871,010	1,661,304

Note 1: In 2020, the Group successfully applied for funding support from the Employment Support Scheme ("ESS") under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the ESS, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

Note 2: Government grants were received by the Group from the Government of the People's Republic of China for the office rental in Shenzhen. There are no unfulfilled conditions or contingencies relating to these grants.

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14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2021 HK$'000	2020 HK$'000
Loans and advances to customers	**745,603**	362,234
Investments in securities	**(14,065)**	39,998
Loan commitments and financial guarantee	**(4,862)**	18,125
Short-term funds and placement with banks	**65,936**	1,646
	792,612	422,003

15. TAXATION

	2021 HK$'000	2020 HK$'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	**152,807**	173,111
– Under provision in prior years	**423**	6,464
Overseas taxation		
– Current year	**146,834**	82,186
– Under provision in prior years	**–**	28
Deferred tax (Note 32)		
– Current year	**(8,275)**	14,999
	291,789	276,788

Hong Kong profits tax is calculated at 16.5% (2020: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

15. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2021 HK$'000	2020 HK$'000
Profit before taxation	**1,796,580**	1,756,766
Tax at the domestic income tax rate of 16.5% (2020: 16.5%)	**296,436**	289,866
Tax effect of share of profits of associates	**(10,709)**	(6,968)
Tax effect of expenses not deductible for tax purpose	**37,185**	10,594
Tax effect of income not taxable for tax purpose	**(73,238)**	(61,425)
Under provision in prior years	**423**	6,492
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	**34,388**	25,446
Others	**7,304**	12,783
Tax charge for the year	**291,789**	276,788

16. DIVIDENDS

	2021 HK$'000	2020 HK$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
Interim	**107,015**	106,978
Final	**223,758**	398,736
	330,773	505,714

The final dividend of HK$260,000,000, in respect of the current financial year (2020: HK$223,758,000) has been recommended by the Board.

At the Board meeting on 13 August 2021, the Board declared a total amount of interim dividend of HK$107,015,000 (2020: HK$106,978,000). The interim dividend was paid on 7 October 2021.

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17. CASH AND SHORT-TERM FUNDS

	2021 HK$'000	2020 HK$'000
Cash and balances with central bank and banks	**17,312,228**	17,202,817
Money at call and short notice	**15,006,631**	4,597,826
	32,318,859	21,800,643

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with People's Bank of China by the Mainland branches of HK$1,443,420,000 (2020: HK$304,420,000).

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2021			2020		
	Notional amount HK$'000	Fair value Assets HK$'000	Fair value Liabilities HK$'000	Notional amount HK$'000	Fair value Assets HK$'000	Fair value Liabilities HK$'000
Derivatives held for trading						
– Foreign currency forward contracts and swaps	**220,631,231**	**1,260,284**	**1,234,730**	150,099,831	1,441,027	1,424,876
– Foreign currency options	**3,906,627**	**1,954**	**1,904**	3,479,630	16,436	16,423
– Interest rate swaps	**21,559,825**	**76,912**	**66,640**	51,333,581	101,658	98,269
– Futures	**84,204**	**25**	**–**	22,022,296	–	198
Derivatives designated as hedging instruments						
– Interest rate swaps	**27,525,820**	**64,667**	**858,655**	32,243,316	86,329	2,235,716
		1,403,842	**2,161,929**		1,645,450	3,775,482

As at 31 December 2021 and 31 December 2020, all foreign currency forward contracts have settlement dates within 4 years (2020: 5 years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 8 years (2020: within 10 years).

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2021			2020		
	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000
Exchange rate contracts	**224,537,858**	**375,899**	**680,112**	153,579,461	1,457,463	1,000,258
Interest rate contracts	**49,169,849**	**22,720**	**107,033**	105,583,690	187,987	111,735
Others	**-**	**-**	**-**	15,503	–	775
		398,619	**787,145**		1,645,450	1,112,768

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

As at 31 December 2020, the replacement cost of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

With the implementation of standardized approach for counterparty credit risk under the Basel III framework, the replacement cost of the derivative financial instruments as at 31 December 2021 has taken into account the effect of bilateral nettling agreements.

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18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE HEDGE OF FIXED-RATE BONDS

The Group designates certain interest rate swaps as fair value hedges of FVOCI and amortised cost debt securities with carrying amount of HK$21,332,164,000 (2020: HK$26,305,423,000) and HK$1,166,346,000 (2020: HK$1,216,494,000) as at 31 December 2021, respectively. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 1 month to 9 years (2020: 1 month to 9 years).

During the years ended 31 December 2021 and 31 December 2020, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK$1,018,485,000 (2020: gains of HK$1,654,056,000) and gains in fair value of the interest rate swaps of HK$1,021,587,000 (2020: losses of HK$1,650,149,000) were included in the consolidated income statement.

FAIR VALUE HEDGE OF SUBORDINATED NOTE ISSUED

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US$383 million (2020: US$383 million) subordinated note issued (see note 31). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the gains in fair value of the note of HK$49,663,000 (2020: losses of HK$49,271,000) and losses in fair value of the interest rate swap of HK$53,172,000 (2020: gains of HK$52,367,000) were included in the consolidated income statement.

HEDGE INEFFECTIVENESS

In hedges of Interest income of fixed rate bond and interest expenses of subordinated note, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of Hong Kong or the derivative counterparty.

19. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2021				
Equity securities:				
Listed in Hong Kong	–	38,247	–	38,247
Listed overseas	–	2,612	–	2,612
Unlisted	–	42,654	–	42,654
	–	83,513	–	83,513
Debt securities:				
Certificates of deposits – unlisted	–	3,000,399	–	3,000,399
Other debt securities – unlisted	126,862	49,428,302	3,117,530	52,672,694
	126,862	52,428,701	3,117,530	55,673,093
Other securities:				
Unlisted	615,157	–	–	615,157
	615,157	–	–	615,157
Total:				
Listed in Hong Kong	–	38,247	–	38,247
Listed overseas	–	2,612	–	2,612
Unlisted	742,019	52,471,355	3,117,530	56,330,904
	742,019	52,512,214	3,117,530	56,371,763
As analysed by issuing entities:				
Central governments and central banks	615,157	17,365,205	458,143	18,438,505
Banks and other financial institutions	126,862	17,253,440	992,833	18,373,135
Corporate entities	–	17,893,569	1,666,554	19,560,123
	742,019	52,512,214	3,117,530	56,371,763

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19. INVESTMENTS IN SECURITIES *(Continued)*

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2020				
Equity securities:				
Listed in Hong Kong	91	37,826	–	37,917
Listed overseas	–	2,146	–	2,146
Unlisted	–	41,680	–	41,680
	91	81,652	–	81,743
Debt Securities:				
Certificates of deposits – unlisted	–	6,378,797	–	6,378,797
Other debt securities – unlisted	124,053	43,734,480	2,534,679	46,393,212
	124,053	50,113,277	2,534,679	52,772,009
Total:				
Listed in Hong Kong	91	37,826	–	37,917
Listed overseas	–	2,146	–	2,146
Unlisted	124,053	50,154,957	2,534,679	52,813,689
	124,144	50,194,929	2,534,679	52,853,752
As analysed by issuing entities:				
Central governments and central banks	–	9,914,030	475,743	10,389,773
Banks and other financial institutions	122,702	21,233,068	630,603	21,986,373
Corporate entities	1,442	19,047,831	1,428,333	20,477,606
	124,144	50,194,929	2,534,679	52,853,752

19. INVESTMENTS IN SECURITIES *(Continued)*

INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AT FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities as follows:

	Instruments held as at 31 December 2021		Instruments disposed during the year ended 31 December 2021		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	**42,377**	**7,244**	**–**	**–**	**–**
– other	**41,136**	**1,732**	**–**	**–**	**–**
	83,513	**8,976**	**–**	**–**	**–**

	Instruments held as at 31 December 2020		Instruments disposed during the year ended 31 December 2020		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	41,405	4,295	–	–	–
– other	40,247	7,674	–	–	–
	81,652	11,969	–	–	–

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

20. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets classified as FVOCI as at 31 December 2021 and 31 December 2020 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these financial assets, the full carrying amount of these financial assets continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 26). The transferred financial assets serve as collateral to secure these liabilities. During the covered period, the legal titles of the financial assets are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These financial assets are measured at fair value in the consolidated statement of financial position.

	2021 HK$'000	2020 HK$'000
Financial assets measured at FVOCI		
Carrying amount of transferred assets	**2,048,303**	817,681
Carrying amount of associated liabilities (Note 26)	**2,036,268**	786,540

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21. ADVANCES AND OTHER ACCOUNTS

	2021 HK$'000	2020 HK$'000
Advances to customers		
Bills receivable	**780,159**	1,167,499
Trade bills measured at		
– amortised cost	**330,302**	386,957
– FVOCI	**8,339,820**	5,176,771
	8,670,122	5,563,728
Other advances to customers	**145,610,682**	135,650,390
	155,060,963	142,381,617
Interest receivable	**843,757**	770,942
Impairment allowances		
– Stage 1	**(570,700)**	(428,285)
– Stage 2	**(88,268)**	(108,518)
– Stage 3	**(547,156)**	(342,486)
	(1,206,124)	(879,289)
	154,698,596	142,273,270
Advances to banks	**1,547,259**	1,103,409
Other accounts		
– Deposit placed as mandatory reserve fund (Note 1)	**3,749,852**	4,854,012
– Initial and variation margin (Note 2)	**668,349**	1,473,594
– Others	**1,166,455**	2,578,807
	5,584,656	8,906,413
	161,830,511	152,283,092

Note 1: Balance mainly represented mandatory reserve deposits placed by Mainland Branches with the People's Bank of China which is not available for the Group's daily operation.

Note 2: Balance mainly represented deposits placed in banks as initial and variation margin for certain interest margin, foreign currency forward contracts and repurchase agreements.

21. ADVANCES AND OTHER ACCOUNTS *(Continued)*

Details of the impaired loans are as follows:

	2021 HK$'000	2020 HK$'000
Gross impaired loans	**1,998,724**	922,476
Less: Impairment allowances under Stage 3	**(547,156)**	(342,486)
Net impaired loans	**1,451,568**	579,990
Gross impaired loans as a percentage of gross advances to customers	**1.29%**	0.65%
Market value of collateral pledged	**1,501,523**	341,551

Details of the non-performing loans are as follows:

	2021 HK$'000	2020 HK$'000
Gross non-performing loans (Note)	**1,994,687**	919,596
Less: Impairment allowances under Stage 3	**(547,156)**	(342,486)
Net non-performing loans	**1,447,531**	577,110
Gross non-performing loans as a percentage of gross advances to customers	**1.29%**	0.65%
Market value of collateral pledged	**1,492,071**	322,203

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

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22. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held by the Group	Principal activities and place of operation
Card Alliance Company Limited	Hong Kong, limited liability company	HK$18,000,000	100%	Credit card management in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK$5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK$25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Insurance Brokers Limited	Hong Kong, limited liability company	HK$4,000,000	100%	Insurance broking in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK$85,000,000	100%	Insurance underwriting in Hong Kong
Chong Hing (Management) Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of management services in Hong Kong
Chong Hing (Nominees) Limited	Hong Kong,limited liability company	HK$100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK$10,000,000	100%	Stockbroking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK$16,550,000	100%	Property investment in Mainland China
Hero Marker Limited	Hong Kong, limited liability company	HK$100,000	100%	Property investment in Hong Kong
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK$100,000	100%	Property investment in Hong Kong

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. In the opinion of the directors, listing details of other subsidiaries would result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES

	2021 HK$'000	2020 HK$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	**426,739**	399,553

The directors consider the Group has significant influence over these entities.

As at 31 December 2021 and 2020, the Group had interests in the following associates:

	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting

The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of six to one out of eight directors of these companies.

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2021 HK$'000	2020 HK$'000
Other comprehensive income	**(9,275)**	6,180
Profit after tax	**64,901**	42,229
Total comprehensive income	**55,626**	48,409

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited ("HKLI") which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

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24. INVESTMENT PROPERTIES

	2021 HK$'000	2020 HK$'000
At 1 January	**299,513**	306,610
Transfer from land and buildings	**17,503**	–
Net income (loss) on fair value recognised in the profit or loss	**6,834**	(10,300)
Exchange adjustments	**2,088**	3,203
At 31 December	**325,938**	299,513

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 31 December 2021 by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value of investment properties is determined by adopting the direct comparison approach and income approach. Under direct comparison approach, the fair value is determined by reference to actual sales transactions of comparable properties with similar character and location. Under income approach, the fair value is determined by reference to the value of income, cash flow or cost savings generated by the assets.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2021 and 31 December 2020. There were no transfers into or out of Level 3 during the year.

24. INVESTMENT PROPERTIES *(Continued)*

The carrying amount of investment properties of the Group comprises:

	2021 HK$'000	2020 HK$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	**172,030**	156,600
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**86,750**	90,500
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**67,158**	52,413
	325,938	299,513

LEASING ARRANGEMENTS

The Group leases out investment property under operating leases. Lease payments are usually increased after the end of current leases to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2021 HK$'000	2020 HK$'000
Within 1 year	**5,333**	1,727
After 1 year but within 2 years	**4,473**	2,100
After 2 years but within 3 years	**1,444**	2,652
	11,250	6,479

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25. PROPERTY AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Right-of-use assets HK$'000	Equipment HK$'000	Total HK$'000
COST					
At 1 January 2021	**345,225**	**112,687**	**926,152**	**919,695**	**2,303,759**
Additions	**–**	**–**	**199,003**	**166,768**	**365,771**
Disposals	**–**	**–**	**(140,069)**	**(108,841)**	**(248,910)**
Transfer to investment properties	**(205)**	**(450)**	**–**	**–**	**(655)**
Exchange adjustments	**–**	**788**	**15,381**	**8,380**	**24,549**
At 31 December 2021	**345,020**	**113,025**	**1,000,467**	**986,002**	**2,444,514**
ACCUMULATED DEPRECIATION					
At 1 January 2021	**106,751**	**41,420**	**376,742**	**683,628**	**1,208,541**
Depreciation	**7,833**	**2,792**	**206,693**	**84,338**	**301,656**
Eliminated on disposals	**–**	**–**	**(101,539)**	**(68,532)**	**(170,071)**
Transfer to investment properties	**(86)**	**(432)**	**–**	**–**	**(518)**
Exchange adjustments	**–**	**282**	**6,806**	**5,923**	**13,011**
At 31 December 2021	**114,498**	**44,062**	**488,702**	**705,357**	**1,352,619**
CARRYING AMOUNTS					
At 31 December 2021	**230,522**	**68,963**	**511,765**	**280,645**	**1,091,895**
At 1 January 2021	**238,474**	**71,267**	**549,410**	**236,067**	**1,095,218**
COST					
At 1 January 2020	345,225	112,415	770,250	894,247	2,122,137
Additions	–	–	157,758	94,136	251,894
Disposals	–	–	(1,862)	(82,517)	(84,379)
Exchange adjustments	–	272	6	13,829	14,107
At 31 December 2020	345,225	112,687	926,152	919,695	2,303,759
ACCUMULATED DEPRECIATION					
At 1 January 2020	98,917	38,595	173,868	686,506	997,886
Depreciation	7,834	2,763	202,873	69,836	283,306
Eliminated on disposals	–	–	–	(81,769)	(81,769)
Exchange adjustments	–	62	1	9,055	9,118
At 31 December 2020	106,751	41,420	376,742	683,628	1,208,541
CARRYING AMOUNTS					
At 31 December 2020	238,474	71,267	549,410	236,067	1,095,218
At 1 January 2020	246,308	73,820	596,382	207,741	1,124,251

25. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2021 HK$'000	2020 HK$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	**27,550**	27,990
Held on medium-term lease (10–50 years unexpired)	**202,227**	209,710
Leasehold land outside Hong Kong:		
Held on medium-term lease (10–50 years unexpired)	**745**	774
	230,522	238,474

The carrying amounts of buildings shown above comprise:

	2021 HK$'000	2020 HK$'000
Held in Hong Kong on long-term lease (over 50 years unexpired)	**4,494**	4,752
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**58,609**	60,996
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**5,860**	5,519
	68,963	71,267

26. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2021 HK$'000	2020 HK$'000
Analysed by collateral type:		
Debt securities classified as FVOCI (Note 20)	**2,036,268**	786,540

27. DEPOSITS FROM CUSTOMERS

	2021 HK$'000	2020 HK$'000
Demand deposits and current accounts	**21,474,295**	17,426,489
Savings deposits	**57,559,174**	50,703,560
Time, call and notice deposits	**122,053,639**	115,098,242
	201,087,108	183,228,291

28. CERTIFICATES OF DEPOSIT

	2021 HK$'000	2020 HK$'000
Certificates of deposit, measured at amortised cost	**1,597,765**	2,551,530

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29. LOAN CAPITAL

	2021 HK$'000	2020 HK$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US$383 million fixed rate subordinated note due 2027 (Notes (a) & (b))	**3,009,489**	3,033,178

Notes:

(a) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US$382,903,000 tier 2 subordinated notes issued on 26 July 2017 (the "New Notes"). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022. This includes US$22,903,000 of "New Exchange Notes" (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US$225,000,000 6.000% Subordinated Notes due 2020) and US$360,000,000 of "New Money Notes". The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.

(b) The subordinated notes issued are not secured by any collateral.

ANALYSIS OF CHANGES IN FINANCING CASH FLOW OF LOAN CAPITAL DURING THE YEAR

	2021 HK$'000	2020 HK$'000
At 1 January	**3,033,178**	4,579,912
Changes from financing cash flows:		
Redemption of loan capital	**–**	(1,629,378)
Interest paid on loan capital	**(53,950)**	(213,627)
	2,979,228	2,736,907
Exchange adjustments	**17,255**	27,635
Fair value hedge adjustments	**(49,662)**	49,271
Other changes		
Interest expense	**72,289**	149,300
Other non-cash movements	**(9,621)**	70,065
Total other changes	**62,668**	219,365
At 31 December	**3,009,489**	3,033,178

30. SHARE CAPITAL

	2021 Number of shares	2021 Share capital HK$'000	2020 Number of shares	2020 Share capital HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	**972,526,094**	**9,977,060**	972,526,094	9,977,060
Shares issued under share award scheme	**336,126**	**3,824**	–	–
Shares cancelled under the Scheme of Arrangement (note (a))	**(243,467,720)**	**(2,497,808)**	–	–
Shares issued under the Scheme of Arrangement (note (a))	**243,467,720**	**2,497,808**	–	–
Share issued as a result of capital injection (note (b))	**1**	**5,300,000**	–	–
At 31 December	**972,862,221**	**15,280,884**	972,526,094	9,977,060

Notes:

(a) On 23 September 2021, under the scheme of arrangement as set out in the composite scheme document jointly issued by the Bank and an intermediate holding company dated 30 July 2021 (the "Scheme of Arrangement"), the Bank cancelled and extinguished 243,467,720 ordinary shares in issue, with nominal value of HK$2,497,808,000.

On 27 September 2021, under the Scheme of Arrangement, the Bank issued 243,467,720 new ordinary shares to the immediate holding company of the Bank, Yuexiu Financial Holdings Limited, (credited as fully-paid by applying the reserve created as a result of the cancellation, extinguishment and reduction), with nominal value of HK$2,497,808,000.

(b) On 20 December 2021, the Bank further issued 1 ordinary share with nominal value of HK$5,300,000,000 to the immediate holding company of the Bank, as a result of capital injection. Such share is fully paid.

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31. ADDITIONAL EQUITY INSTRUMENTS

	2021 HK$'000	2020 HK$'000
Additional Tier 1 Capital Securities		
US$400 million undated non-cumulative subordinated capital securities (Note (a))	**3,111,315**	3,111,315
US$300 million undated non-cumulative subordinated capital securities (Note (b))	**2,316,681**	2,316,681
	5,427,996	5,427,996

Notes:

(a) On 15 July 2019, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$400 million (equivalent to HK$3,115,315,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.700% coupon until the first call date on 15 July 2024. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.858% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

(b) On 3 August 2020, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$300 million (equivalent to HK$2,316,681,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.500% coupon until the first call date on 3 August 2025. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.237% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

32. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2021 HK$'000	2020 HK$'000
Deferred tax assets	**72,198**	32,109
Deferred tax liabilities	**(176,339)**	(96,932)
	(104,141)	(64,823)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation HK$'000	Impairment allowances HK$'000	Investment properties HK$'000	Revaluation of FVOCI securities HK$'000	Remeasurement of retirement benefits HK$'000	Total HK$'000
At 1 January 2021	**(128,981)**	**78,326**	**(19,080)**	**11,022**	**(6,110)**	**(64,823)**
(Charge) credit to income statement for the year (Note 15)	**(33,334)**	**49,241**	**(7,632)**	**-**	**-**	**8,275**
Credit (charge) to other comprehensive income for the year	**-**	**-**	**-**	**(46,827)**	**-**	**(46,827)**
Exchange adjustments	**-**	**-**	**(766)**	**-**	**-**	**(766)**
At 31 December 2021	**(162,315)**	**127,567**	**(27,478)**	**(35,805)**	**(6,110)**	**(104,141)**
At 1 January 2020	(119,387)	83,731	(18,142)	(58,258)	(4,424)	(116,480)
(Charge) credit to income statement for the year (Note 15)	(9,594)	(5,405)	-	-	-	(14,999)
Credit (charge) to other comprehensive income for the year	-	-	-	69,280	(1,686)	67,594
Exchange adjustments	-	-	(938)	-	-	(938)
At 31 December 2020	(128,981)	78,326	(19,080)	11,022	(6,110)	(64,823)

Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Mainland branches amounting to HK$1,684,765,000 (2020: HK$1,362,137,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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33. SHARE BASED PAYMENT

SHARE OPTION SCHEME

The Bank adopted a share option scheme (the "Scheme") pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees and to replace the share option scheme (the "Expired Scheme") which expired on 24 April 2012. The terms of the Scheme are similar to those of the Expired Scheme. Under the Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as at the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the Scheme since it was adopted.

33. SHARE BASED PAYMENT *(Continued)*

SHARE AWARD SCHEME

The Share Award Scheme forms part of the incentive schemes of the Group. The Board considers that the award of the Award Shares to the Selected Employees recognises and motivates the outstanding contributions made by them and in driving the continuous business operation and development of the Group.

The Board considers that the grant of Award Shares to the Directors of the Bank and of the Bank's subsidiaries is fair and reasonable and is in the interests of the Bank and the Shareholders as well as the Independent Shareholders as a whole.

The Bank awards selected employees in the form of issuing new shares of Chong Hing Bank listed on the Stock Exchange. The Bank has adopted a share vesting schedule of 25% per year and will be fully vested in 4 years. Upon fulfilment of pre-defined vesting conditions, the new shares will be issued to the relevant selected employee on each designated vesting date. In principle, at the end of the fourth year, all share awarded to the relevant selected employee would be fully vested. The share award will be revoked if the relevant selected employee is found to be voluntarily resigned, terminated and summarily dismissed before the vesting date.

The following awards of shares were offered to Directors and selected employees of the Group:

Date of grant	Number of award shares granted	Average fair value per share	Vesting period From	To
16 March 2020	1,447,397	11.372	16 March 2021	16 March 2024
16 March 2021	555,685	9.872	16 March 2022	16 March 2025

Upon privatization and the withdrawal of the listing of shares of the Bank on the Stock Exchange, all outstanding award shares had been cancelled and each outstanding share award holder was entitled to receive the Share Award Offer Price of HK$20.80 for each such outstanding share award cancelled, upon the fulfilment of pre-defined vesting and other conditions as set out in the rules of the Share Award Scheme. The Board exercised its discretion to terminate the Share Award Scheme with effect from 22 October 2021 in accordance with the terms and conditions of the Share Award Scheme.

Movement in the number of outstanding award shares was as follows:

	2021 Number of award shares	2020 Number of award shares
Outstanding as at 1 January	**1,355,931**	–
Awarded during the year	**555,685**	1,447,397
Vested during the year	**(336,126)**	–
Forfeited during the year	**(92,634)**	(91,466)
Cancelled during the year	**(1,482,856)**	–
Outstanding as at 31 December	**–**	1,355,931

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

34. INTANGIBLE ASSETS

	Club Membership HK$'000	Goodwill HK$'000	Software HK$'000	Internally developed software HK$'000	Total HK$'000
COST					
At 1 January 2021	**14,090**	**110,606**	**15,655**	**788,990**	**929,341**
Addition	**–**	**–**	**–**	**–**	**–**
Addition through internal development	**–**	**–**	**–**	**80,912**	**80,912**
Exchange adjustment	**–**	**–**	**509**	**1,764**	**2,273**
At 31 December 2021	**14,090**	**110,606**	**16,164**	**871,666**	**1,012,526**
ACCUMULATED AMORTISATION					
At 1 January 2021	**–**	**–**	**3,098**	**11,870**	**14,968**
Amortisation	**–**	**–**	**1,056**	**46,147**	**47,203**
Exchange adjustment	**–**	**–**	**123**	**1,097**	**1,220**
At 31 December 2021	**–**	**–**	**4,277**	**59,114**	**63,391**
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2021	**–**	**71,000**	**–**	**–**	**71,000**
NET BOOK VALUE					
At 31 December 2021	**14,090**	**39,606**	**11,887**	**812,552**	**878,135**
COST					
At 1 January 2020	14,090	110,606	14,698	719,478	858,872
Addition	–	–	–	–	–
Addition through internal development	–	–	–	66,213	66,213
Exchange adjustment	–	–	957	3,299	4,256
At 31 December 2020	14,090	110,606	15,655	788,990	929,341
ACCUMULATED AMORTISATION					
At 1 January 2020	–	–	1,929	7,654	9,583
Amortisation	–	–	983	3,509	4,492
Exchange adjustment	–	–	186	707	893
At 31 December 2020	–	–	3,098	11,870	14,968
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2020	–	71,000	–	–	71,000
NET BOOK VALUE					
At 31 December 2020	14,090	39,606	12,557	777,120	843,373

34. INTANGIBLE ASSETS *(Continued)*

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited ("CHI"). The amount of goodwill arising as a result of acquisition was HK$110,606,000.

For the year ended 31 December 2021, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. The fair value of CHI as at 31 December 2021 was estimated by applying market approach based on a price-to-book ratio of 1 (2020: 1).

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2021 (2020: nil).

Included in the balance as at 31 December 2021, HK$274,156,000 (2020: HK$247,421,000) is capitalised from expenditures that directly attributable to the development of the software.

35. OTHER ACCOUNTS AND ACCRUALS

	2021 HK$'000	2020 HK$'000
Accrued interest	**1,316,744**	1,281,380
Lease liabilities	**489,051**	506,593
Others	**1,019,568**	1,453,835
	2,825,363	3,241,808

TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated cash flow statement and consolidated income statement for leases comprises the following:

	2021 HK$'000	2020 HK$'000
Payment of lease liabilities:		
Principal	**144,356**	168,242
Interest	**14,811**	17,058
Expenses relating to short-term leases	**2,461**	1,709
Expenses relating to leases of low-value assets	**35**	50
	161,663	187,059

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for the year ended 31 December 2021

36. CONTINGENT LIABILITIES AND COMMITMENTS

	2021 HK$'000	2020 HK$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	**2,141,968**	2,686,382
Transaction-related contingencies	**3,517,914**	23,824
Trade-related contingencies	**263,208**	659,450
Forward asset purchases	**33,940**	100,080
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	**46,469,868**	31,838,953
With an original maturity of one year and under	**2,621,791**	3,392,615
With an original maturity of over one year	**4,677,998**	7,609,633
Lease commitments	**1,753**	58
	59,728,440	46,310,995

The credit risk-weighted amount of contingent liabilities and commitments is HK$6,150,971,000 (2020: HK$6,517,255,000).

The credit risk-weighted amount is calculated based on "standardised approach". The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2020: 0% to 150%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

36. CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non – cancellable operating leases which fall due as follows:

	2021 HK$'000	2020 HK$'000
Within one year	**1,504**	50
In the second to fifth years, inclusive	**249**	8
	1,753	58

Operating lease payments represent short-term and low-value lease payable by the Group for certain of its office properties.

Capital commitments outstanding at the end of the reporting period are as follows:

	2021 HK$'000	2020 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	**33,940**	100,080

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for the year ended 31 December 2021

37. RETIREMENT BENEFITS SCHEME

At the beginning of the reporting period, the Group had two retirement schemes in operation including a defined benefit scheme (the "ORSO Scheme"), which was registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme in defined contribution segment prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the "participating members"). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 60. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The trustees of the ORSO Scheme have resolved to terminate the ORSO Scheme on 20 March 2019. The ORSO Scheme has ceased operations and on the same date transferred all assets to Chong Hing Bank Limited – New Staff Retirement Benefits Scheme (the "New Scheme") on 30 August 2019 with a new trustee appointed. The New Scheme mirrors the benefit provisions of the ORSO Scheme.

The most recent actuarial valuation of the defined benefit segment of the ORSO Scheme was carried out as at 31 December 2020 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method. At the date of the latest formal independent actuarial valuation made on 31 December 2020, the net retirement asset of the defined benefit segment was HK$38,415,000.

	2020 HK$'000
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(304)
Interest income on plan assets	803
Net interest income	499
Amount recognised in other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	10,220

37. RETIREMENT BENEFITS SCHEME *(Continued)*

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2020 HK$'000
Present value of defined benefit obligation	(15,036)
Fair value of plan assets	53,451
	38,415

Changes in the present value of the defined benefit obligation are as follow:

	2020 HK$'000
Opening defined benefit obligation	17,682
Interest cost	304
Actuarial gain	(1,673)
Benefits paid	(1,277)
Closing defined benefit obligation	15,036

Changes in fair value of plan assets are as follow:

	2020 HK$'000
Opening fair value of plan assets	45,378
Interest income	803
Return on plan assets	8,547
Benefits paid	(1,277)
Closing fair value of plan assets	53,451

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for the year ended 31 December 2021

37. RETIREMENT BENEFITS SCHEME *(Continued)*

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2020 %
Cash	4
Guaranteed fund	96

The fair value of the plan assets as at 31 December 2020 for each category, are as follow:

	2020 HK$'000
Cash	1,924
Guaranteed fund	51,554
	53,478

The ORSO Scheme's defined benefit segment exposes the Group to the interest rate risk, longevity risk and price risk as at 31 December 2020.

INTEREST RATE RISK

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

37. RETIREMENT BENEFITS SCHEME *(Continued)*

PRICE RISK

As stated above, 96% of the assets were invested into direct equities as at 31 December 2020. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

The significant assumptions used in determining the defined benefit obligations are shown below:

	2020 %
Discount rate (per annum)	0.8
Expected rate of pension increase (per annum)	0.0

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2020 Change in assumption +0.25% HK$'000	 -0.25% HK$'000
Discount rate	(366)	384

	Age +1 year HK$'000	Age –1 year HK$'000
Pensioner mortality	(687)	698

As at 31 December 2020, the weighted average duration of the defined benefit obligation is approximately 9.6 years.

The costs for providing benefits to the members of the ORSO Scheme's defined benefit segment are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2020, the Group is not required to contribute to the ORSO Scheme's defined benefit segment with respect to the members of the ORSO Scheme's defined benefit segment according to the results of the last statutory funding valuation of the ORSO Scheme's defined benefit segment as at 31 December 2020. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO Scheme's defined benefit segment in every three years become available.

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for the year ended 31 December 2021

38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2021 HK$'000	2020 HK$'000	2021 HK$'000	2020 HK$'000
Ultimate holding company	**28**	14	**26,616**	31,965
Intermediate holding company	**367**	4,482	**2,485**	6,747
Fellow subsidiaries	**61,773**	42,758	**135,370**	112,929
Associates	**54,448**	74,690	**20,545**	25,266
Key management personnel (Note 1)	**8,600**	4,712	**1,755**	1,204

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK$58,298,000 (2020: HK$1,627,000).

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2021 HK$'000	2020 HK$'000	2021 HK$'000	2020 HK$'000
Ultimate holding company	**–**	–	**1,645,807**	1,018,913
Intermediate holding company	**–**	200,000	**1,151,617**	278,595
Fellow subsidiaries	**1,477,973**	1,109,070	**5,847,717**	6,931,486
Associates	**–**	–	**439,041**	295,693
Key management personnel (Note 1)	**680,101**	636,461	**475,435**	896,483

Note 1: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

38. RELATED PARTY TRANSACTIONS *(Continued)*

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 31 December 2021, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK$24,766,247 (31 December 2020: HK$141,893,000) and held no financial assets at amortised cost issued by fellow subsidiaries (31 December 2020: HK$23,824,000).

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of the key management during the year was as follows:

	2021 HK$'000	2020 HK$'000
Short-term benefits	**222,575**	198,461
Post employment benefits	**17,264**	12,748
Share-based payment	**–**	5,978
	239,839	217,187

The remuneration of directors and key management is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2021, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 10 March 2022. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

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for the year ended 31 December 2021

39. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objective when managing capital are:

– comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and

– support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the Hong Kong Monetary Authority (the "HKMA") on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2021 HK$'000	2020 HK$'000
Assets		
Cash and short-term funds	**32,311,351**	21,793,126
Placements with banks maturing between one to twelve months	**527,627**	1,478,103
Derivative financial instruments	**1,403,842**	1,645,450
Investments in securities	**56,321,316**	52,805,252
Advances and other accounts	**161,551,122**	151,699,507
Tax recoverables	**2,004**	168,841
Investments in subsidiaries	**250,984**	250,984
Amounts due from subsidiaries	**200,118**	201,523
Interests in associates	**20,000**	20,000
Investment properties	**258,780**	247,100
Property and equipment	**910,452**	912,895
Deferred tax assets	**72,198**	32,109
Intangible assets	**838,528**	803,767
Total assets	**254,666,322**	232,058,657
Liabilities		
Deposits and balances of banks	**7,671,283**	8,229,574
Financial assets sold under repurchase agreements	**2,036,268**	786,540
Deposits from customers	**201,192,530**	183,332,636
Amounts due to subsidiaries	**721,494**	595,814
Derivative financial instruments	**2,161,929**	3,775,482
Other accounts and accruals	**2,574,512**	2,743,053
Current tax liabilities	**88,289**	12,825
Certificates of deposit	**1,597,765**	2,551,530
Loan capital	**3,009,489**	3,033,178
Deferred tax liabilities	**150,645**	79,733
Total liabilities	**221,208,114**	205,140,365
Equity attributable to owners of the Bank		
Share capital	**15,280,884**	9,977,060
Additional equity instruments	**5,427,996**	5,427,996
Reserves (Note (a))	**12,749,328**	11,513,236
Total equity	**33,458,208**	26,918,292
Total liabilities and equity	**254,666,322**	232,058,657

Approved and authorised for issue by the Board of Directors on 31 March 2022 and signed on its behalf by:

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

Lau Wai Man
Executive Director and Deputy Chief Executive

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40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a):

	Share-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK								
At 1 January 2021	6,023	10,910	179,633	1,378,500	162,908	603,000	9,172,262	11,513,236
Profit for the year	–	–	–	–	–	–	1,375,975	1,375,975
Exchange differences arising on translation	–	–	–	–	192,621	–	–	192,621
Surplus on transfer of land and buildings to investment properties	–	–	17,503	–	–	–	–	17,503
Net gains on investments in equity instruments measured at FVOCI	–	766	–	–	–	–	–	766
Net gains on investments in debt instruments measured at FVOCI	–	406,516	–	–	–	–	–	406,516
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	–	(68,686)	–	–	–	–	–	(68,686)
Income tax effect relating to disposal of financial assets measured at FVOCI	–	11,333	–	–	–	–	–	11,333
Income tax effect relating to fair value change of financial assets measured at FVOCI	–	(58,094)	–	–	–	–	–	(58,094)
Other comprehensive income	–	291,835	17,503	–	192,621	–	–	501,959
Total comprehensive income for the year	–	291,835	17,503	–	192,621	–	1,375,975	1,877,934
Equity settled share-based transaction	(6,023)	–	–	–	–	–	–	(6,023)
Distribution payment for additional equity instruments	–	–	–	–	–	–	(305,046)	(305,046)
Interim dividend paid	–	–	–	–	–	–	(107,015)	(107,015)
Final dividend paid	–	–	–	–	–	–	(223,758)	(223,758)
Earmark of retained profits as regulatory reserve	–	–	–	–	–	(21,000)	21,000	–
At 31 December 2021	–	302,745	197,136	1,378,500	355,529	582,000	9,933,418	12,749,328

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): *(Continued)*

	Share-based payment reserve HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK								
At 1 January 2020	–	406,871	179,633	1,378,500	(173,595)	1,039,000	8,053,609	10,884,018
Profit for the year	–	–	–	–	–	–	1,356,949	1,356,949
Exchange differences arising on translation	–	–	–	–	336,503	–	–	336,503
Remeasurement of retirement benefit	–	–	–	–	–	–	10,220	10,220
Income tax effect relating to retirement benefit	–	–	–	–	–	–	(1,686)	(1,686)
Net losses on investments in equity instruments measured at FVOCI	–	(2,594)	–	–	–	–	–	(2,594)
Net losses on investments in debt instruments measured at FVOCI	–	(407,272)	–	–	–	–	–	(407,272)
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	–	(57,416)	–	–	–	–	–	(57,416)
Income tax effect relating to disposal of financial assets measured at FVOCI	–	9,474	–	–	–	–	–	9,474
Income tax effect relating to fair value change of financial assets measured at FVOCI	–	61,847	–	–	–	–	–	61,847
Other comprehensive income	–	(395,961)	–	–	336,503	–	8,534	(50,924)
Total comprehensive income for the year	–	(395,961)	–	–	336,503	–	1,365,483	1,306,025
Redemption of additional equity instruments	–	–	–	–	–	–	–	–
Equity settled share-based transaction	6,023	–	–	–	–	–	–	6,023
Distribution payment for additional equity instruments	–	–	–	–	–	–	(177,116)	(177,116)
Interim dividend paid	–	–	–	–	–	–	(106,978)	(106,978)
Final dividend paid	–	–	–	–	–	–	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve	–	–	–	–	–	(436,000)	436,000	–
At 31 December 2020	6,023	10,910	179,633	1,378,500	162,908	603,000	9,172,262	11,513,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): *(Continued)*

The Bank's reserves available for distribution to owners as at 31 December 2021 comprised retained profits of HK$9,711,817,000 (2020: HK$9,055,117,000) and general reserve of HK$1,378,500,000 (2020: HK$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of FVOCI investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI debt securities are disposed of.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner – occupied properties to investment properties.

Exchange differences relating to the translation of the net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

41. BENEFITS AND INTERESTS OF DIRECTORS

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G))

(A) Directors' emoluments

The emoluments of the Directors of the Bank were as follows:

	2021 HK$'000	2020 HK$'000
Directors' fee	**4,284**	4,620
Salaries, bonuses, allowances and benefits in kind	**19,036**	17,371
Retirement benefits scheme contributions	**1,349**	1,298
Share-based payment	**–**	1,091
	24,669	24,380

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G)) *(Continued)*

(B) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding at January 1 HK$'000	Aggregate balance of all relevant loans outstanding at December 31 HK$'000	Maximum aggregate balance of relevant loans during the year HK$'000
2021	**2,369**	**1,887**	**3,679**
2020	2,483	2,369	3,594

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK$1,847,000 (2020: HK$2,152,000) secured by collateral. The collateral consists mainly of properties, securities and fixed deposits.

42. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As at 31 December 2021 and 31 December 2020, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was Guangzhou Yue Xiu Holdings Limited, which is incorporated in the People's Republic of China.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

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

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined terms of reference. The Board reviews and updates the committees' Terms of Reference on a regular basis.

These specialised committees are:
(i) Audit Committee
(ii) Connected Party Transactions Committee
(iii) Executive Committee
(iv) Digitalization Strategy Committee (formerly known as Information Technology Strategy Committee)
(v) Nomination and Remuneration Committee
(vi) Risk Committee

The Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

(VII) ALCO

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets liabilities and capital of the Group from the perspective of containing the pertinent capital funding and liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

(VIII) RMC

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

2. MANAGEMENT OF RISKS

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. Internal auditors also play an important role in risk management process by performing regular, as well as conducting sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the funding and liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the RMC policies are monitored by the Finance and Capital Management Division, the Treasury Division and the Market Risk Management Department with the assistance of various qualitative and quantitative analyses.

Complementing with the ALCO in its management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

(I) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

Executive Directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and the Bank's normal operations are restored effectively and efficiently in the event of business interruption.

(II) REPUTATION RISK

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A reputation risk management policy guided by the Board has been established to manage including, without limitation, media exposure, handling of customers' and other stakeholders' complaints and suggestions, and to ensure that the Group's business activities, and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2021 %	2020 %
Total capital ratio	**19.17**	16.79
Tier 1 capital ratio	**16.80**	14.36
Common Equity Tier 1 ("CET 1") capital ratio	**13.93**	11.27

	31 December 2021 %	31 December 2020 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	**2.500**	2.500
Countercyclical capital buffer ratio	**0.616**	0.667
	3.116	3.167

	2021 %	2020 %
Leverage ratio	**12.01**	10.38

	2021 %	2020 %
Average liquidity maintenance ratio for the year	**45.60**	44.98

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for the year ended 31 December 2021

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS *(Continued)*

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio ("LMR") is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

4. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website: http://www.chbank.com/en/personal/footer/about-ch-bank/regulatory-disclosures/index.shtml in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

5. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

6. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2021 and 2020 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2021		
	Advances overdue for over three months as at 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	**98,695**	**356,441**	**370,398**

	2020		
	Advances overdue for over three months as at 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	120,429	78,344	97,488

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

7. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2021				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	**98,643,824**	**339,324**	**933,894**	**333,950**	**330,629**
Mainland China	**49,179,979**	**–**	**914,830**	**129,709**	**309,472**
Macau	**4,422,965**	**–**	**150,000**	**83,497**	**6,684**
Others	**2,814,195**	**–**	**–**	**–**	**12,183**
	155,060,963	**339,324**	**1,998,724**	**547,156**	**658,968**

	2020				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	96,302,200	305,209	902,171	337,606	329,979
Mainland China	42,315,428	–	–	–	204,952
Macau	3,268,157	–	20,305	4,880	922
Others	495,832	–	–	–	950
	142,381,617	305,209	922,476	342,486	536,803

8. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 31 December 2021				
			Non-bank private sector		
	Banks HK$'000	Official sector HK$'000	Non-bank financial institutions HK$'000	Non-financial private sector HK$'000	Total HK$'000
Offshore centres	**4,236,208**	**4,481**	**10,765,772**	**21,895,075**	**36,901,536**
of which					
– Hong Kong	**3,478,955**	**4,018**	**7,583,595**	**10,088,911**	**21,155,479**
Developing Asia-Pacific	**7,416,592**	**20,015**	**19,313,610**	**7,823,689**	**34,573,906**
of which					
– Mainland China	**4,344,796**	**19,826**	**19,313,610**	**7,810,854**	**31,489,086**
Developed countries	**9,173,293**	**1,955,374**	**124,337**	**493,735**	**11,746,739**

	At 31 December 2020				
			Non-bank private sector		
	Banks HK$'000	Official sector HK$'000	Non-bank financial institutions HK$'000	Non-financial private sector HK$'000	Total HK$'000
Offshore centres	5,572,214	8,491	11,527,918	21,217,887	38,326,510
of which					
– Hong Kong	5,357,307	8,143	8,161,101	9,490,275	23,016,826
Developing Asia-Pacific	4,691,055	13,568	19,475,820	6,548,488	30,728,931
of which					
– Mainland China	4,138,294	13,419	19,475,820	6,545,683	30,173,216
Developed countries	4,642,020	2,110,067	149,553	541,270	7,442,910

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

9. CURRENCY RISK

The Group's foreign currency exposures arising from trading, non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	2021		
	USD HK$'000	RMB HK$'000	Total HK$'000
Spot assets	**58,138,057**	**72,894,634**	**131,032,691**
Spot liabilities	**(34,528,929)**	**(75,082,884)**	**(109,611,813)**
Forward purchases	**96,457,945**	**20,517,155**	**116,975,100**
Forward sales	**(120,382,413)**	**(16,587,466)**	**(136,969,879)**
Net options position	**–**	**–**	**–**
Net (short) long position	**(315,340)**	**1,741,439**	**1,426,099**

	USD HK$'000	MOP HK$'000	RMB HK$'000	Total HK$'000
Net structural position	**221,913**	**48,544**	**3,321,000**	**3,591,457**

	2020		
	USD HK$'000	RMB HK$'000	Total HK$'000
Spot assets	63,747,783	59,735,234	123,483,017
Spot liabilities	(43,823,457)	(63,902,166)	(107,725,623)
Forward purchases	64,587,796	10,441,667	75,029,463
Forward sales	(79,677,743)	(5,090,230)	(84,767,973)
Net options position	820	1	821
Net long position	4,835,199	1,184,506	6,019,705

	USD HK$'000	MOP HK$'000	RMB HK$'000	Total HK$'000
Net structural position	220,630	48,544	3,216,240	3,485,414

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for the year ended 31 December 2021

10. OVERDUE AND RESCHEDULED ASSETS

	2021 Gross amount of advances HK$'000	2021 Percentage to total advances %	2020 Gross amount of advances HK$'000	2020 Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	**84,752**	**0.1**	172,215	0.1
– 1 year or less but over 6 months	**170,591**	**0.1**	12,014	0.0
– Over 1 year	**83,981**	**0.1**	120,980	0.1
Total overdue advances	**339,324**	**0.2**	305,209	0.2
Rescheduled advances	**154,647**	**0.1**	91,006	0.1
Stage 3 impairment allowances made in respect of overdue loans and advances	**170,813**		213,022	

The value of the security of the above overdue advances is analysed as follows:

	2021 HK$'000	2020 HK$'000
Covered portion of overdue loans and advances	**136,107**	81,990
Uncovered portion of overdue loans and advances	**203,217**	223,219
	339,324	305,209
Market value of collateral held against covered portion of overdue loans and advances	**160,226**	88,423

Collateral held with respect to overdue loans and advances are mainly properties.

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2021 and 31 December 2020, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 31 December 2021 amounted to HK$77,960,000 (2020: HK$15,250,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2021

11. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorized by types of counterparties:

	31 December 2021		
	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	**34,592,859**	**3,028,628**	**37,621,487**
2. Local government, local government-owned entities and their subsidiaries and JVs	**14,161,787**	**1,911,789**	**16,073,576**
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**44,500,862**	**2,949,660**	**47,450,522**
4. Other entities of central government not reported in item 1 above	**6,245,012**	**413,283**	**6,658,295**
5. Other entities of local government not reported in item 2 above	**959,468**	**39,133**	**998,601**
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**13,082,129**	**313,761**	**13,395,890**
7. Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	**5,995,658**	**421,795**	**6,417,453**
Total	**119,537,775**	**9,078,049**	**128,615,824**
Total assets after provision (Note)	**254,297,936**		
On-balance sheet exposures as percentage of total assets (Note)	**47.01%**		

11. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

	31 December 2020 On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	33,091,141	4,038,102	37,129,243
2. Local government, local government-owned entities and their subsidiaries and JVs	10,285,577	1,445,409	11,730,986
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	36,429,792	5,810,389	42,240,181
4. Other entities of central government not reported in item 1 above	7,769,838	2,076,593	9,846,431
5. Other entities of local government not reported in item 2 above	994,725	546,102	1,540,827
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	14,555,668	903,214	15,458,882
7. Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	7,982,439	1,069,689	9,052,128
Total	111,109,180	15,889,498	126,998,678
Total assets after provision (Note)	231,396,482		
On-balance sheet exposures as percentage of total assets (Note)	48.02%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

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for the year ended 31 December 2021

12. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

		Total assets		Total equity	
Name of company	Principal activities	2021 HK$'000	2020 HK$'000	2021 HK$'000	2020 HK$'000
Chong Hing (Nominees) Limited	Provision of nominee services	**100**	100	**100**	100
Chong Hing Securities Limited	Stockbroking	**847,497**	1,169,883	**660,707**	579,529
Chong Hing Commodities and Futures Limited	Commodities and futures broking	**69,143**	67,350	**66,586**	66,496
Chong Hing Insurance Company Limited	Insurance underwriting	**397,637**	412,191	**301,475**	290,161
Chong Hing Insurance Brokers Limited	Insurance broking	**5,622**	4,710	**4,334**	4,170
Chong Hing (Management) Limited	Provision of management services	**78**	85	**78**	78

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 31 March 2022

		Telephone
HONG KONG MAIN BRANCH	Chong Hing Bank Centre 24 Des Voeux Road Central	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	3768 6210
Causeway Bay	488 Jaffe Road	3768 6290
North Point	376 King's Road	3768 6200
Shau Kei Wan	203-205 Shau Kei Wan Road	3768 6330
Sheung Wan	163 Wing Lok Street	3768 6220
Wan Chai	265-267 Hennessy Road	3768 6350
Western	347-349 Des Voeux Road West	3768 6280
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road, Cheung Sha Wan	3768 6320
How Ming Street	114 How Ming Street, Kwun Tong	3768 6480
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre No. 8 Wang Hoi Road	3768 6740
Kowloon City	31-33 Nga Tsin Wai Road	3768 6300
Kwun Tong	31-33 Mut Wah Street	3768 6410
Lei Yue Mun	Shop 123, 1/F, Domain, 38 Ko Chiu Road, Yau Tong	3768 6530
Mongkok	Shop No.2 of G/F & Whole of Upper Ground Floor, Ginza Square, No. 567 Nathan Road, Kowloon	3768 0001
San Po Kong	55-57 Yin Hing Street	3768 6360
Sham Shui Po	144-148 Tai Po Road	3768 6310
Shun Lee Estate	Lee Yat House, Shun Lee Estate	3768 6420
Tak Tin Estate	No. 207, Tak Tin Plaza, Tak Tin Estate, Lam Tin	3768 6470
To Kwa Wan	34-34A Tam Kung Road	3768 6370
Tsim Sha Tsui	16 Granville Road	3768 6240
Tsz Wan Shan	60-64 Sheung Fung Street	3768 6390

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 31 March 2022

		Telephone
NEW TERRITORIES BRANCHES		
Cheung Fat Estate	Shop No. 206A, 2/F, Cheung Fat Plaza Cheung Fat Estate, Tsing Yi	3768 6560
Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	3768 6520
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Shatin	3768 6450
Shatin	Shop 1A, Ground Floor, Lucky Plaza, Shatin	3768 6400
Sheung Shui	71 San Fung Avenue	3768 6270
Sheung Tak Estate	Shop No. 237, TKO Spot, Sheung Tak Estate Tseung Kwan O	3768 6510
Tai Wo Plaza	Shop No. 101 I, Level 1, Tai Wo Plaza No. 12 Tai Wo Road, Tai Po	3768 6900
Tin Chak Estate	Shop No. 218, 2/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	3768 6570
Tsuen Wan	298 Sha Tsui Road	3768 6440
Tuen Mun Hong Lai Garden	G/F, Hong Lai Garden, 117 Heung Sze Wui Road Tuen Mun	3768 6580
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3768 6710
Yuen Long	99-109 Castle Peak Road	3768 6230
GUANGZHOU BRANCH		
Guangzhou	Room 102, Room 201, Room 301 & Room 01-16 of 50/F, Yuexiu Financial Tower, No. 28 Zhujiang East Road, Tianhe District, Guangzhou, Guangdong, China	(86-20) 2213 7988
SHENZHEN BRANCH		
Shenzhen	Unit 01-Unit 08, 22nd Floor, China Resources Tower, No. 2666 Keyuan South Road, Yuehai Sub-District, Nanshan District, Shenzhen, China	(86-755) 3352 9099

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 31 March 2022

		Telephone
SHANGHAI BRANCH		
Shanghai	28th Floor, Yue Xiu Tower No. 388 Fushan Road, Pudong, Shanghai, China	(86-21) 6085 3000
SHANTOU BRANCH		
Shantou	No. 103-105, Block One, Lanbao International Mansion, Fengzezhuang No. 162 Jinsha Road, Shantou, Guangdong, China	(86-754) 8890 3224
SHENZHEN NANSHAN SUB-BRANCH		
Shenzhen Nanshan	Unit 17, 18 & 19 of 1st Floor, Unit 39 of 2nd Floor, T2 Tower, Ali Center, No. 3331 Keyuan South Road (Shenzhen Bay), Yuehai Sub-District, Nanshan District, Shenzhen, China	(86-755) 3352 7685
DONGGUAN SUB-BRANCH		
Dongguan	Unit 105, Nanfeng Center, No. 106 Hongfu Road, Nancheng District, Dongguan, Guangdong, China	(86-769) 8608 5888
GUANGZHOU HAIZHU SUB-BRANCH		
Guangzhou Haizhu	Unit 106, No. 1236 Xingang East Road, Haizhu District Guangzhou, Guangdong, China	(86-20) 2213 7988
GUANGDONG PILOT FREE TRADE ZONE NANSHA SUB-BRANCH		
Nansha	Room 801-805, Building No. 1 No. 106 Fengze Road East, Nansha District Guangzhou, Guangdong, China	(86-20) 3226 0620
FOSHAN SUB-BRANCHES		
Foshan	Unit B107 & B205-2, Level 1 and Level 2, Mall 1, Yuexiu Xing Hui Yun Jin Plaza No. 84 North Nanhai Da Dao, Guicheng Jie Dao Nanhai District, Foshan, Guangdong, China	(86-757) 6352 2888

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 31 March 2022

		Telephone
Foshan Chancheng	No. 68-70, Ground Floor, No. 33 Tongji East Road, Chancheng District, Foshan, Guangdong, China	(86-757) 6352 2818

GUANGDONG PILOT FREE TRADE ZONE
HENGQIN SUB-BRANCH

Hengqin	Area B, Block 10, Hengqin Financial Industry Service Base, Shizimen Central Business District Hengqin New Area, Zhuhai, Guangdong, China	(86-756) 3833 039

MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edificio Tai Wah, R/C, Macau	(853) 2833 9982

PRINCIPAL SUBSIDIARIES

Card Alliance Company Limited
Chong Hing Commodities and Futures Limited
Chong Hing Finance Limited
Chong Hing Information Technology Limited
Chong Hing Insurance Brokers Limited
Chong Hing Insurance Company Limited
Chong Hing (Management) Limited
Chong Hing (Nominees) Limited
Chong Hing Securities Limited
Gallbraith Limited
Hero Marker Limited
Top Benefit Enterprise Limited

ASSOCIATES

Bank Consortium Holding Limited
BC Reinsurance Limited
Hong Kong Life Insurance Limited

創興銀行有限公司
Chong Hing Bank Limited

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