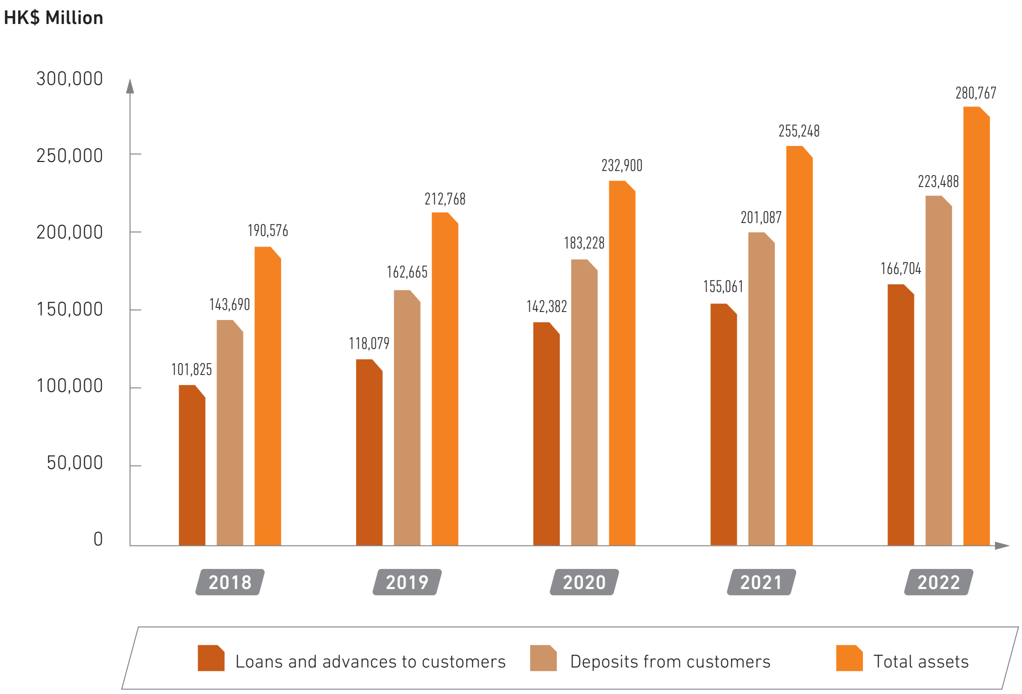
創興銀行有限公司
Chong Hing Bank Limited

2022
ANNUAL REPORT

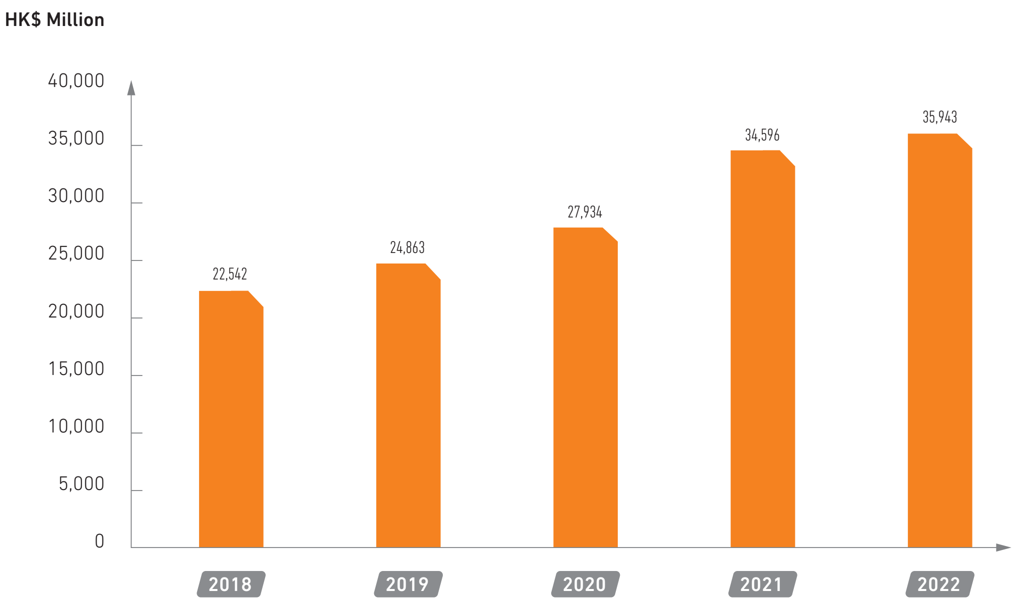
CONTENTS

FINANCIAL SUMMARY

LOANS AND ADVANCES TO CUSTOMERS/DEPOSITS FROM CUSTOMERS/TOTAL ASSETS

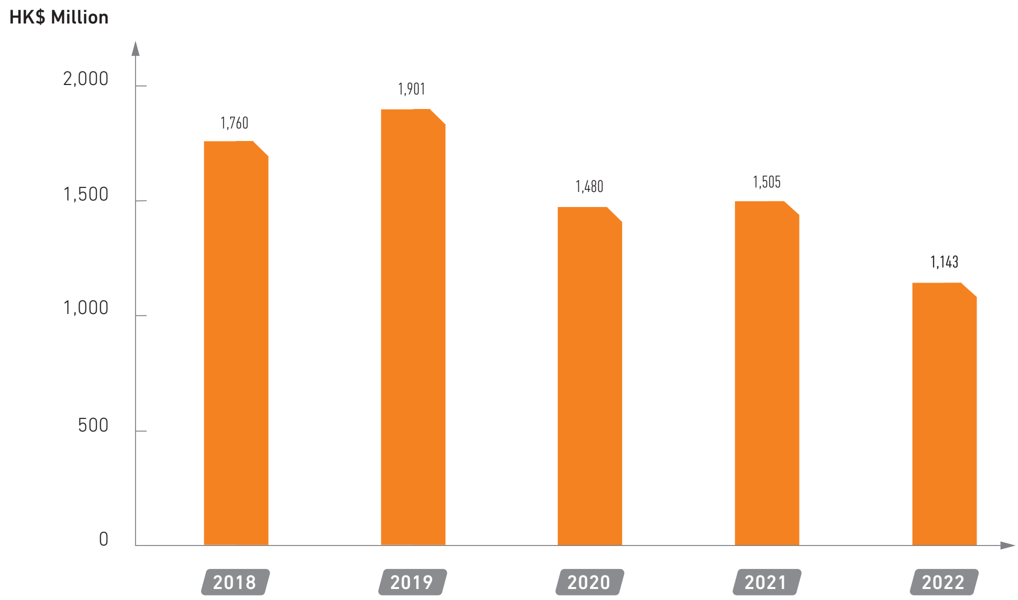


TOTAL EQUITY



FINANCIAL SUMMARY

PROFIT ATTRIBUTABLE TO EQUITY OWNERS



FINANCIAL SUMMARY

	2018 HK$ Million	2019 HK$ Million	2020 HK$ Million	2021 HK$ Million	2022 HK$ Million
Loans and advances to customers	101,825	118,079	142,382	155,061	**166,704**
Deposits from customers	143,690	162,665	183,228	201,087	**223,488**
Total assets	190,576	212,768	232,900	255,248	**280,767**
Total liabilities	168,033	187,905	204,965	220,652	**244,824**
Total equity	22,542	24,863	27,934	34,596	**35,943**
Profit attributable to equity owners	1,760	1,901	1,480	1,505	**1,143**

CORPORATE INFORMATION

as of 6 April 2023

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 YEE Wing Chi
Mr YOUNG Chi Ho

DIGITALIZATION 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 JIN Lin *(Deputy Chief Executive)*
Mr TANG Xianqing *(Deputy Chief Executive)*
Ms CHAN Yun Ling *(Chief Operating Officer and Alternate Chief Executive)*
Mr YEE Wing Chi *(Chief Financial Officer)*
Mr YOUNG Chi Ho *(Chief Risk Officer)*
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)*
Mr WONG Kwok Pun *(Head of Treasury and Markets)*
Ms CHENG Wing Yi *(Head of Human Resources Division)*
Ms LAI Wing Nga *(Company Secretary)*

CORPORATE INFORMATION

as of 6 April 2023

REGISTERED OFFICE

Address	: Ground Floor, Chong Hing Bank Centre 24 Des Voeux Road Central, Hong Kong
Telephone	: (852) 3768 6888
Facsimile	: (852) 3768 1888
SWIFT BIC	: LCHB HK HH
Website	: www.chbank.com
E-mail	: customerservice@chbank.com

Chong Hing Bank's website access code

PRINCIPAL LEGAL ADVISERS

Deacons
Mayer Brown JSM

AUDITOR

Ernst & Young
Certified Public Accountants

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$400,000,000 5.70 per cent. undated non-cumulative subordinated additional tier 1 capital securities and (2) US$300,000,000 5.50 per cent. undated non-cumulative subordinated additional tier 1 capital securities are (1) 04419 (CH BANK NCSCS) and (2) 40329 (CH BANK NCSCSB) respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 6 April 2023

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 56, has been appointed an Executive Director of the Bank since September 2015, and has been the Chief Executive and the Deputy Chairman of the Bank since April 2017 and May 2018 respectively. He also acted as Alternate Chief Executive, Deputy Managing Director and Head of Mainland Business Division of the Bank from May 2016 to April 2017, May 2015 to May 2018 and May 2015 to September 2022 respectively.

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 also 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 6 April 2023

Mr LAU Wai Man

aged 64, 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 59, 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., and Chairman of Guangzhou Guangdian Real Estate Development Co., Ltd. Mr Zhang is a deputy to the 12th National People's Congress of the People's Republic of China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 6 April 2023

Mr LI Feng

aged 54, 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, organizing industrial development and financing coordination, optimizing and deepening the customer resources management, etc, of the Yue Xiu Group and 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 Capital Holdings Group Co., Ltd. (廣州越秀資本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 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 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 72, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 6 April 2023

Ms CHEN Jing

aged 51, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo

aged 62, 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) 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 (Stock Code: 00620), a company listed on the Stock Exchange, from November 2015 to May 2020; HKC (Holdings) Limited (Stock Code before delisting: 00190) from July 2004 to June 2021, 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) from November 2007 to August 2021, listing of its shares on the Stock Exchange was cancelled with effect from 2 August 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 6 April 2023

Mr LEE Ka Lun

aged 68, 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), 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. Besides, Mr Lee was an Independent Non-executive Director of Medicskin Holdings Limited (Stock Code: 08307) from December 2014 to November 2022. 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.

Mr YU Lup Fat Joseph

aged 75, 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 JIN Lin

aged 58, has been the Deputy Chief Executive and Head of Mainland Business Division of the Bank since September 2022. Mr Jin obtained a Master Degree of Management in Technical Economics and Management from The Harbin Institute of Technology and is qualified as a senior Economist. He has been engaged in the banking industry for more than 30 years and held senior management positions in national joint-stock commercial banks for substantial years. He has extensive experience and professional standards in banking management.

Mr TANG Xianqing

aged 58, has been the Deputy Chief Executive of the Bank since November 2019 and has been appointed as the Manager of the Beijing Branch of the Bank since August 2022. 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 25 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 6 April 2023

Ms CHAN Yun Ling

aged 56, Executive Vice President, has been the Bank's Chief Operating Officer since October 2022 and Alternate Chief Executive of the Bank and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank). Before that, she was the Head of Treasury and Markets. Ms Chan 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 YEE Wing Chi

Aged 53, Executive Vice President, has been the Chief Financial Officer of the Bank since December 2022. Mr Yee obtained a Master Degree of Risk Management Science from The Chinese University of Hong Kong and a Master Degree of Business Administration from The University of Warwick. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst. Mr Yee has more than 25 years of auditing and financial controllership experience in the financial services industry. Prior to joining the Bank, he held different senior positions with various local and international banks.

Mr YOUNG Chi Ho

Aged 48, Executive Vice President, has been the Chief Risk Officer of the Bank since September 2022. Mr Young holds a Master Degree of Science in Economics from The Hong Kong University of Science and Technology and a Master Degree of Commercial Bank Management from The East China Normal University. He is a Certified Financial PlannerCM and Certified Anti-Money Laundering Specialist. He has extensive experience in banking industry for more than 24 years covering wealth management, channel management and product management in frontline business, and credit risk, market risk, operational risk, legal and compliance risk in bank-wide risk management. He worked across Hong Kong and Mainland with vast exposure to risk management and compliance.

Mr SIN Tat Wo

aged 53, 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 61, 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 6 April 2023

Ms NG Sau Wai Sylvia

aged 55, 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.

Mr WONG Kwok Pun

Aged 46, Executive Vice President, Head of Treasury and Markets. Mr Wong holds a Bachelor and a Master Degree in Economics from The University of Hong Kong. He is a Fellow Member of the Association of Chartered Certified Accountants, a Chartered Financial Analyst and a Financial Risk Manager. Mr Wong has more than 20 years of experience in banking, accounting and finance.

Ms CHENG Wing Yi

aged 49, 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.

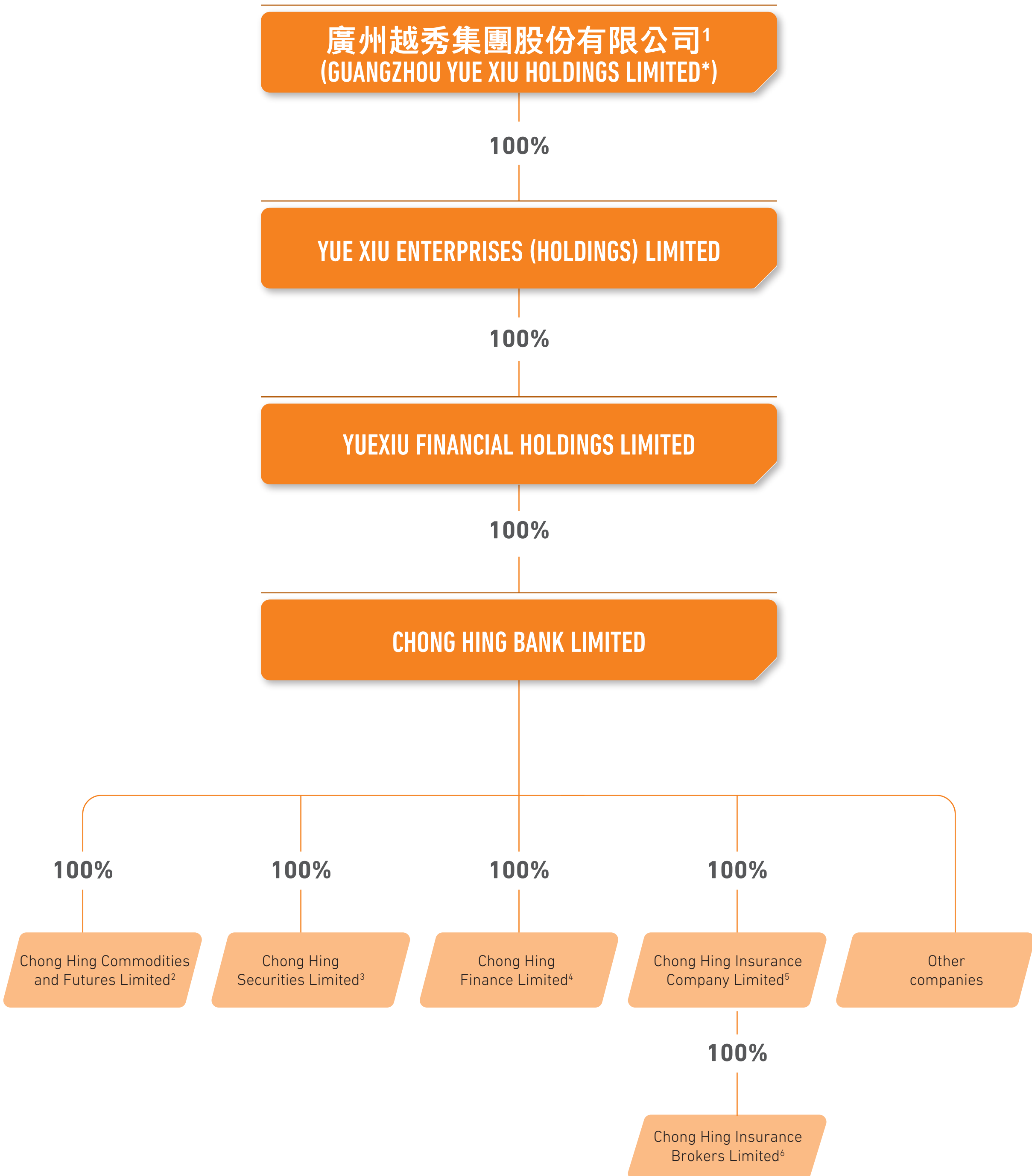
Ms LAI Wing Nga

aged 58, 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 6 April 2023



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

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

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

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

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

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

* *for identification purpose only*

CHAIRMAN'S STATEMENT

Mr ZHANG Zhaoxing
Chairman

Facing a volatile external environment and tough conditions as a result of the repeated resurgence of the Covid pandemic, Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") once again demonstrated in 2022 its determination to seek progress while maintaining stability and scale new heights of achievement amidst multiple pressures and daunting challenges. By maintaining its operations in a prudent manner and enhancing its risk management, the Bank realised quality development of its core businesses and at the same time achieved a significant breakthrough in its strategic nationwide layout. As eloquent evidence of the Bank's continuous enhancement of its overall strength, in the Top 1000 World Banks list for 2022 released by the British magazine The Banker, Chong Hing Bank climbed to 339th place, up 37 spots from last year, maintaining its ranking among the top 400 banks for the fourth consecutive year.

Benefiting from the rebound of Hong Kong dollar interest rates during the period, the Bank's net interest margin has widened, resulting in an increase in net interest income of 21.26% compared to 2021. Furthermore, the Mainland business of the Bank continued its rapid expansion. Meanwhile, in light of the removal of pandemic-related restrictions and the recovery of the Hong Kong economy, the Bank seized the market opportunities that arose to support its long-term development. Operating profit before impairment allowances amounted to HK$3,133 million, an increase of 24.07% compared to 2021. Profit attributable to equity owners amounted to HK$1,143 million, a decrease of 24.03% compared to 2021. The Board of Directors of the Bank has recommended payment of a final cash dividend of HK$130,000,000 for 2022. The total dividend payout for the year accounted for 29.91% of this adjusted profit attributable to equity owners, less the distribution paid on additional equity instruments.

The major financial ratios for 2022 are as follows:

- Return on shareholders' equity: 2.81%
- Average liquidity maintenance ratio: 51.61%
- Total capital ratio as of 31 December 2022: 17.62%
- Tier 1 capital ratio as of 31 December 2022: 16.02%
- Loan to deposit ratio as of 31 December 2022: 70.92%

Amid the unstable geopolitical situation, rising inflation, interest rate hikes by central banks of major economies, and the impact of the pandemic, China was committed to maintaining stability in its economy and growth. This determination not only contributed to stabilising the global economy, but also provided solid support for the economy of Hong Kong, which has proactively integrated itself into the nation's development. In particular, with the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") as a key focus, Hong Kong has promoted its development in collaboration with other cities in the Greater Bay Area, creating enormous opportunities for Hong Kong's financial sector and other industries. Chong Hing Bank, a wholly-owned subsidiary of Yuexiu Group, proactively develops its business in line with national strategies and strengthens regional interaction with Yuexiu Group and its subsidiaries. By leveraging its unique advantages in Hong Kong and the Mainland, and with a strategic focus on cross-border finance, the Bank has provided distinctive and differentiated cross-border financial services, the aim being to become a fully integrated commercial bank with cross-border expertise.

During the year, Chong Hing Bank further accelerated its development in the Mainland, reaching a new milestone in its drive to expand its presence across the country and to establish a comprehensive Mainland network. With the opening of the Beijing Branch in September as the Bank's fifth Mainland branch and its first outlet in the Bohai Sea Region, together with the opening of sub-branches in Zhongshan and Shunde, the Bank now has a presence in the three economically developed regions, namely the Greater Bay Area, the Yangtze River Delta and the Bohai Sea Region. Moreover, its network covers the Mainland first-tier cities of Beijing, Shanghai, Guangzhou and Shenzhen.

The year 2023 marks the 75th anniversary of the establishment of Chong Hing Bank and is also a crucial year for its 14th Five-Year Plan. To seize the opportunities presented by economic recovery as the pandemic abates and the world returns to normal, Chong Hing Bank will actively manage multiple risks and challenges, focus on structural optimisation and digital transformation, and accelerate the development of its businesses. Mainland and cross-border businesses are the core drivers for the development of Chong Hing Bank. As such, the Bank will continue to broaden its cross-border expertise and expand its presence in core Mainland cities, exploring new openings for business development in the Greater Bay Area in particular and in the nation in general.

CHAIRMAN'S STATEMENT

The Bank faced enormous challenges in 2022. I would like to extend my sincere gratitude to all our directors for their outstanding leadership, to our customers and business partners for their trust and support, and to our management team and all staff members for their persistence and dedication in this difficult environment. Their united efforts have enabled Chong Hing Bank to move steadfastly ahead. With the progress that has been achieved in the past 75 years, Chong Hing Bank is standing at a new historical point from which to embark on a new journey towards a higher level. Under the guidance of the Bank's corporate culture concept, adhering to its Enterprise Spirit of Beyond Excellence and upholding the Core Values of Belief, Credibility, Trust and Confidence, we will forge ahead to pursue high-quality development and realise our vision of building a century-old brand.

ZHANG Zhaoxing
Chairman

Hong Kong, 6 April 2023

CHIEF EXECUTIVE'S STATEMENT

Mr ZONG Jianxin
Chief Executive

ECONOMIC ENVIRONMENT

In 2022, as the pandemic and geopolitical factors disrupted the global supply chain and high inflation saw energy and food prices soaring, central banks of many countries raised interest rates and tightened monetary policies. These developments weighed on the growth of the global economy and led to significant volatilities in global financial markets. The US economy returned to slight growth in the third quarter, with gross domestic product (GDP) rising by 2.1% year-on-year driven by higher consumption spending. In response to high inflation, the US Federal Reserve raised interest rates seven times in 2022, with a cumulative increase of 4.25%. For its part, the Eurozone economy witnessed a significant slowdown in the third quarter and the European Central Bank raised interest rates four times from July amid persistently high inflation. For the global economy as a whole, geopolitical tensions and the intensity of monetary policy adjustments by major central banks are expected to continue to amplify downside risks, with a further slowdown of growth to 2.7% in 2023 as forecast by the International Monetary Fund in October 2022.

Affected by the pandemic and external adverse factors, Mainland China's economy saw a slowdown, with GDP growing by 3% year-on-year, according to a preliminary calculation, and gross economic output reaching a new high of more than RMB120 trillion. The Central Economic Work Conference held at the end of 2022 pointed out that in 2023, economic endeavours will prioritise stability and seek progress in a stable manner. The focus will be on stabilising economic growth, employment and prices so as to prevent and resolve major risks and promote overall improvement of the economy.

CHIEF EXECUTIVE'S STATEMENT

In Hong Kong, impacted by the fifth wave of the pandemic and the dramatic deterioration of the external environment, the economy was weak throughout the year, with GDP falling by 3.5% year-on-year. The further worsening of the external environment dealt a heavy blow to Hong Kong's goods exports and also caused a decline in exports of services. Sharp interest rate hikes by major central banks have led to tightened financial conditions, which in turn have weighed heavily on domestic demand. Notwithstanding this situation, the improvement of labour market conditions and the launch of the Consumption Voucher Scheme by the HKSAR Government have provided a certain degree of support to private consumption.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2022 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)		
		2022 HK$'000	**2021 HK$'000**	**Variance**
1.	Operating profit before impairment allowances	**3,133,252**	2,525,445	+24.07%
2.	Profit attributable to equity owners	**1,143,190**	1,504,791	-24.03%
3.	Net interest income	**3,984,334**	3,285,723	+21.26%
4.	Net fee and commission income	**477,965**	529,439	-9.72%
5.	Net income from trading and investments	**466,438**	407,508	+14.46%
6.	Other operating income	**177,127**	173,785	+1.92%
7.	Operating expenses	**1,972,612**	1,871,010	+5.43%
8.	Net impairment losses on financial assets	**1,979,761**	792,612	+149.78%

		As of 31 December 2022 HK$'000	**As of 31 December 2021 HK$'000**	**Variance**
9.	Loans and advances to customers	**166,704,133**	155,060,963	+7.51%
10.	Deposits from customers	**223,488,227**	201,087,108	+11.14%
11.	Investments in securities	**65,748,813**	56,371,763	+16.63%
12.	Total assets	**280,766,665**	255,247,558	+10.00%

		31 December (12 months)		
		2022	**2021**	**Variance**
13.	Return on shareholders' equity (Note 1)	**2.81%**	5.03%	-2.22 p.p
14.	Net interest margin	**1.53%**	1.35%	+0.18 p.p
15.	Cost to income ratio	**38.63%**	42.56%	-3.93 p.p
16.	Average liquidity maintenance ratio	**51.61%**	45.60%	+6.01 p.p

		As of 31 December 2022	As of 31 December 2021	Variance
17.	Non-performing loan ratio	**2.67%**	1.29%	+1.38 p.p
18.	Loan to deposit ratio	**70.92%**	72.23%	-1.31 p.p
19.	Total capital ratio (Note 2)	**17.62%**	19.17%	-1.55 p.p
20.	Tier 1 capital ratio (Note 2)	**16.02%**	16.80%	-0.78 p.p
21.	Common Equity Tier 1 capital ratio (Note 2)	**13.40%**	13.93%	-0.53 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 2022, profit attributable to equity owners of the Bank amounted to HK$1,143 million, representing a decrease of 24.03% compared to 2021. The operating profit before impairment allowances amounted to HK$3,133 million, representing an increase of 24.07% from 2021. Taking aside the increase in provision for impairment losses on financial assets, the consolidated operating profit before impairment allowances increased compared to 2021, which was mainly attributable to the increase in net interest income and net income from trading and investments, which was partly offset by the decrease in net fee and commission income.

Net interest income was HK$3,984 million, an increase of 21.26% as compared to 2021. Driven by the Bank's proactive balance sheet management and the rebound of Hong Kong dollar interest rates, net interest margin of the Bank increased by 18 basis point to 1.53% as compared to 2021.

Net fee and commission income decreased by 9.72% to HK$478 million, mainly due to the decrease in fee income from securities dealings and wealth management business.

Foreign exchange and other treasury customer activities remained stable. Net income from trading and investments increased by 14.46% to HK$466 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 2022, impairment losses on financial assets increased by HK$1,187 million to HK$1,980 million as compared to 2021, mainly driven by the credit deterioration of certain customers under the impact of industry-specific risks 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.

CHIEF EXECUTIVE'S STATEMENT

While the Bank continued to maintain cost effectiveness and process streamlining, the operating expenses slightly increased by 5.43% to HK$1,973 million as compared to 2021. Such increase was mainly driven by the increase in staff cost particularly for the expansion of the Mainland network and higher IT related professional cost.

Loans and advances to customers recorded an increase of 7.51% to HK$166.7 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 2022 rose to 2.67%.

Deposits from customers grew by 11.14% to HK$223.5 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 10.00% to HK$280.8 billion. As at 31 December 2022, 68.43% 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 131 basis points to 70.92%, whereas the average liquidity maintenance ratio remained stable at 51.61%.

Total capital ratio was at 17.62%, the Tier 1 capital ratio was at 16.02% and the Common Equity Tier 1 capital ratio was at 13.40%.

Overall, the Bank's core businesses, financial position and asset quality remained strong in 2022, 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 has recommended the payment of a final cash dividend of HK$130,000,000 for the financial year of 2022. Total dividends for the financial year of 2022, including the interim cash dividend of HK$100,000,000 paid on Tuesday, 29 November 2022, amounted to HK$230,000,000. 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 29.91%.

SUCCESSFUL ISSUANCE OF TIER 2 SUBORDINATED SUPPLEMENTARY NOTES

On 27 July 2022, Chong Hing Bank successfully issued US$224 million 10-year non-call 5-year tier 2 subordinated supplementary notes. The issuance adopted the private placement model. The purchaser of the notes is Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"), with a coupon rate of 4.9% per annum. The raised funds are used mainly to supplement the tier 2 capital of Chong Hing Bank.

As the US$383 million tier 2 subordinated notes issued by the Bank in 2017 were due on 26 July 2022 and needed to be fully redeemed, and US dollar rate hike would increase the cost of subsequent issuance, in the first half of 2022, YX Enterprises decided to subscribe for the private placement tier 2 subordinated notes issued by the Bank. The subscription was on top of its capital injection by Yuexiu Financial Holdings Limited of HK$1.75 billion to supplement the core equity capital of the Bank, adding up to a capital increase of HK$3.5 billion by the Yuexiu Group for the year to help maintain the Bank's capital base. The capital injection by Yuexiu Group demonstrates its full confidence in and firm support for the future development of Chong Hing Bank against the backdrop of the volatile global macro-political and economic environment and the US interest rate hike cycle.

BUSINESS REVIEW

CORPORATE BANKING

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

In order to improve its corporate banking services, the Bank keeps abreast of market trends and fully meets the needs of customers. In addition to fully supporting the SME Financing Guarantee Scheme offered by HKMC Insurance Limited and the Special 100% Loan Guarantee under this scheme to facilitate the development of local SMEs, the Bank provides green and sustainable financing solutions for corporate customers. During the year it launched its first sustainability-linked loan to help corporate customers transition to green and sustainable development and explore more green business opportunities. Furthermore, the Bank introduced green deposits for the first time, supporting development projects such as green buildings, renewable energy, energy efficiency, pollution prevention and control, and clean transportation.

As for the syndicated loan business, in 2022 the Bank successfully undertook 14 primary syndicated loans, 4 club loans, and acquired 11 secondary loans. The Bank continuously enhanced the quality of its loan asset portfolio and improved relevant returns via secondary market transactions. Meanwhile, the Bank successfully executed a number of cross-border finance transactions, including providing onshore and offshore structured loans to enterprises and supplying working capital loans to domestic enterprises, with guarantees issued by the Bank's Mainland branches.

In 2022, the deposit base, loan portfolio and net interest income from the Bank's corporate banking business recorded moderate growth year-on-year. As an integrated commercial bank offering cross-border services, and leveraging on its competitive edge in network interaction between Hong Kong and the Mainland, Chong Hing Bank will continue to provide diversified financial products and services. These are designed to accommodate customers' funding requirements in the Greater Bay Area and help customers deal with interest rate and exchange rate risks through the Bank's treasury product portfolio.

CHIEF EXECUTIVE'S STATEMENT

PERSONAL BANKING

Given the pandemic, the complex and volatile geopolitical situation and the fact that major global markets are entering an interest rate hike cycle, the Bank actively enhanced its business expansion capabilities and further optimised its product offerings and sales channels to provide customers with more efficient and convenient services, thus achieving steady development of its personal banking business.

- As investment businesses were under pressure due to anti-pandemic policies and the external market environment, the Bank focused on strengthening its wealth management business and continued to introduce appropriate products and new partners for fund business. It also boosted digital transformation by launching promotion campaigns for investment via electronic channels, helping customers to overcome geographical restrictions and seize investment opportunities. In the first quarter, the Bank launched the Southbound Wealth Management Connect service of Cross-boundary Wealth Management Connect to provide customers in the Greater Bay Area with a variety of eligible cross-border wealth management products. Services such as the newly launched online appointment for account opening by attestation were optimised, providing convenience to customers in the Greater Bay Area when the Hong Kong-Mainland border was closed.

- With the rising interest rate on deposits as a result of successive interest rate hikes by the US Federal Reserve, customers increased their time deposits to earn higher interest, driving the Bank's total deposits to a satisfactory year-on-year increase while widening the spread income of personal banking business.

- As regards loan business, the quality of personal banking loans remained at a healthy level. To capture the opportunities arising from cross-border demand, the Bank proactively launched new cross-border property mortgage services to provide one-stop solutions for Hong Kong permanent residents buying properties in the Greater Bay Area. At the same time, the Bank is committed to optimising its financing product platform to provide a wide range of secured loan solutions, boosting the wealth management products financing business and premium/policy financing business, and meeting the asset allocation needs of cross-border and local target customer groups.

- Chong Hing Bank's Exceed Banking services have been well received by high-end customers since their launch, with a year-on-year increase of 20% in customers. The Bank aimed to enrich and optimise the service packages and offers of Exceed Banking to enhance customer experience, capture the business opportunities for the wealth management needs of cross-border customers, and attract high-end cross-border customer groups with a one-stop wealth management package. The Bank also attracts and nurtures young customer groups by optimising the service functions of its online banking and mobile App, leading to double-digit growth year-on-year in the Bank's young customer base.

Launch of the Southbound Wealth Management Connect service of Cross-boundary Wealth Management Connect

Optimisation of the service packages of Exceed Banking to enhance customer experience

Chong Hing Bank actively enhances its business expansion capabilities and optimises its product offerings and sales channels to provide customers with more efficient and convenient personal banking services.

- The private banking business continued to develop. In response to the ever-changing investment environment, the Bank further enriched its private banking investment products. These included, but were not limited to, foreign currency principal-guaranteed investment deposits and foreign currency forward transactions, creating more diversified investment portfolios for private banking customers.

- The Bank's credit card merchant acquiring business and cardholder consumption business have gradually grown since the pandemic abated in the third quarter, coupled with the launch of the Consumption Voucher Scheme by the HKSAR Government. The credit card merchant acquiring business recorded sound growth in the second half of the year, while transaction levy revenue from the cardholder consumption business increased by 24% year-on-year. With the popularity of new payment models such as contactless/QR code payment during the pandemic, the Bank launched the integrated payment with one device electronic payment model for its acquiring business, contributing to a year-on-year increase of 18% in new merchants.

CHIEF EXECUTIVE'S STATEMENT

In addition, the Bank launched the Chong Hing Credit Card e-Wallet promotion in the second quarter to encourage customers to conduct transactions by linking the Chong Hing Credit Card with electronic payment tools such as UnionPay App, AlipayHK Wallet and WeChat Pay HK Wallet. This promotion boosted the active customer rate and drove the incremental spending of credit cards, with an increase of approximately 10% in new customers compared to the pre-promotion period.

Diversified promotional offers to serve the financial management needs of customers.

TREASURY AND MARKETS BUSINESS

The Bank has actively developed its treasury and markets business, and during the year significant growth was registered in areas such as treasury activities and customer cross-selling business. In recent years, the Bank's proprietary trading business has generated additional revenue thanks to its keen market insights. 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 will continue to leverage on its dynamic management strategy to capture potential business opportunities and diversify revenue sources.

MAINLAND OPERATIONS

In 2022, amid the increased complexity, difficulties and uncertainty of economic development resulting from the pandemic, the Bank's Mainland branches and sub-branches managed to maintain double-digit growth in their asset scale, operating income and profit by strengthening management and adjusting strategies. The Bank also enhanced its risk management, took advantage of its cross-border expertise and further expanded its network of outlets in the Mainland. The Mainland operations maintained steady but progressive development, with a sound momentum of overall healthy development, and achieved operating results that were very much hard-earned.

- The Bank serves its core customer groups with dedication, focusing on deepening cooperation with state-owned enterprises and has succeeded in making significant breakthroughs in the deposit business for the government institutions sector. It has also steadily expanded its service to quality small-to-mid-sized corporates, further consolidating the scale of online and offline customers with a persistent increase in the number of effective corporate customers.

- The Bank actively expanded its presence in industries with promising development prospects. It has steadily stepped up marketing initiatives in emerging strategic industries, explored and developed green finance and other specialised and new enterprise services, and offered preferential policy support for key industries and customers.

- The Bank has developed its businesses with flexible approaches and ensured the healthy development of its credit business. It has achieved this by strengthening risk management and optimising asset structure, regulating the proportion of its Mainland property business, refining credit item risk monitoring, and dynamically adjusting strategies for the granting of credits.

- The Bank achieved significant growth in its financial market business, actively grasping market opportunities to seek improvement in both scale and efficiency, strengthening cooperation among peers, and vigorously developing new businesses.

- The Bank has achieved sound development in its deposit, loan and investment banking business by promoting synergistic businesses, strengthening internal synergies with Yuexiu Group as well as other domestic and overseas synergies.

- By leveraging on the strengths of its cross-border business to accelerate the pace of innovation, the Bank launched derivatives business, cross-border US dollar custody and payment, cross-border transfer of non-performing assets, and created products such as cross-border transfer of finance lease assets.

- The expansion of the Bank's network accelerated. With the opening of the Beijing Branch, the Zhongshan Sub-Branch and Shunde Sub-Branch, and the start of the Shantou Branch's operations following its relocation, the Bank now has a network of "5 branches and 8 sub-branches" in Mainland China.

CHIEF EXECUTIVE'S STATEMENT

The opening of the Beijing Branch

The opening of the Zhongshan Sub-Branch

The opening of the Shunde Sub-Branch

Chong Hing Bank has formed a network of "5 branches and 8 sub-branches" in Mainland China.

CHONG HING SECURITIES LIMITED

As the pandemic began to ease at the end of 2022, prevention and control measures were gradually lifted around the world. In this context, global economic activities began to return to normal, and the securities markets in Hong Kong rebounded significantly. Chong Hing Securities launched new account promotion campaigns at the right time and continued to optimise its electronic trading channels. These measures led to a growth for the year in trading volume and commissions contributed by electronic channels. With the lifting of anti-pandemic restrictions in the Mainland and the gradual re-opening of the Hong Kong-Mainland border, the Bank remains cautiously optimistic about the overall business outlook of Chong Hing Securities.

CHONG HING INSURANCE COMPANY LIMITED

Facing the challenges of the pandemic, Chong Hing Insurance maintained a prudent business strategy. Underwriting profit increased, attributable to a slight increase in gross written premiums during the year and a corresponding decrease in claims due to the weakened economic activities.

CHONG HING INSURANCE BROKERS LIMITED

Committed to expanding its businesses to both individual and corporate customers in Hong Kong and the Mainland, Chong Hing Insurance Brokers introduced quality insurance companies in the market and selected appropriate life and general insurance products to suit customers' protection and financial needs. It also offered one-stop wealth planning and risk management solutions in order to meet customers' needs for wealth accumulation and family protection, while creating a more comprehensive customer experience.

TRANSFORMATION OF BUSINESS DEVELOPMENT

Fintech

The Bank continued to drive its digital transformation and consolidate its "online-oriented, mobile-prioritised" service mode, focusing on digital product development, customer experience enhancement, and conversion of customers to online banking. During the period, the Bank successfully launched e-statement services for individual customers, optimised the layout design of the Mobile Banking App, and began to develop a new generation of personal online banking services. In addition, it made every effort to build new infrastructure for corporate online banking and remote account opening to improve customers' online experience. Meanwhile, the Bank devoted additional efforts to promoting online bank account opening and provided trainings for front-line staff. This greatly improved the conversion rate of online banking customers and resulted in a significant increase in online trading volume. During the year, the conversion rate of online fixed deposits grew by more than 100%, and the monthly active user rate also increased.

CHIEF EXECUTIVE'S STATEMENT

The Bank continues to drive its digital transformation and consolidate its "online-oriented, mobile-prioritised" service mode.

Optimisation of Operations

The Bank actively accelerated its operational transformation, promoted transaction banking and consolidated fintech infrastructure. A total of 25 new process enhancement projects were successfully completed during the year. These included cooperation with Hong Kong Interbank Clearing Limited in implementing the full cheque imaging and information processing system, the launch of the Southbound Wealth Management Connect service of the Cross-boundary Wealth Management Connect service jointly with the Guangzhou Branch of the Bank, the optimisation of the Bank's treasury settlement system, and the introduction of e-statement service for individual customers.

During the year, both the payment and settlement businesses of Chong Hing Bank entered a new chapter. As the first registered member of SWIFT Go in Hong Kong, the Bank provided fast, secure, transparent and traceable payment transactions. It also cooperated with relevant organisations to develop local and cross-border transfer mechanisms including FPS, ISO 20022 (MX) and SWIFT Go global payment systems. The Bank became a third party netting customer through UBS AG, a clearing member of the CLS, and is also the second Chinese bank to participate in CLS Settlement. Participating in CLS Settlement helped mitigate settlement risks, improve the operational efficiency of the Bank's foreign exchange transactions and further expand its foreign exchange business, hence playing a key role in the growth of Chong Hing Bank's business.

Green Finance

In 2022, the Bank made considerable progress in developing green and sustainable finance. The Bank has formulated internal regulations, including making a Statement on Sustainable Development Strategy and Sustainable Finance Framework. It also signed a strategic cooperation agreement with the Hong Kong Quality Assurance Agency in October to jointly promote the development of green and sustainable finance. In terms of business, the Bank has completed a number of green loans and introduced green deposits, which made further sustainable contributions to environmental protection and low carbon emissions.

Chong Hing Bank signed a strategic cooperation agreement with the Hong Kong Quality Assurance Agency and introduced green loans and green deposits to promote the development of green and sustainable finance.

CORPORATE CULTURE

Chong Hing Bank has always given high priority to the establishment of good corporate culture. To align with the corporate culture of Yuexiu Group, the Bank has developed corporate values that are recognised by both the Bank and its staff members. The initiative plays a positive role in the overall development of the Bank. In 2022, the Bank focused on promoting the corporate culture concepts, highlighting the Core Values (Belief, Credibility, Trust and Confidence) and Enablers (Dedication, Innovation, Commitment and Teamwork). Through the Corporate Culture Ambassador Programme and the launch of Chong Hing People's Charter, the Bank actively strengthened its corporate culture and encouraged all staff members to spontaneously practise it in their day-to-day work. The Bank continued to collect feedbacks by means of surveys among staff members and customers, so as to enhance its operation and management, and leverage on the power of corporate culture to create value.

CHIEF EXECUTIVE'S STATEMENT

TALENT DEVELOPMENT

Adhering to the people-oriented principle, the Bank strategically facilitated the development of human resources management and made further investments in its staff members to promote the healthy growth of the Bank and its staff.

- In line with the Bank's 14th Five-Year Plan goals and to meet future needs of talent development in the banking sector, the Bank provided training courses on business in the Greater Bay Area, fintech, and green and sustainable finance, as well as continued to support employees in obtaining qualifications under the enhanced competency framework for banking practitioners.

- The Bank continued to implement forward-looking manpower allocation and actively built a young talent pipeline. During the period, measures included conducting a systematic Graduate Trainee Programme as well as supporting the Banking Graduate Trainee Programme, the Greater Bay Area Youth Employment Scheme, the Fintech Career Accelerator Scheme and the Industry Project Masters Network Scheme launched by the HKSAR Government and regulatory bodies. The Bank also participated in the Future Banking Bridging Programme (B.E.S.T. Programme) jointly launched by the Hong Kong Monetary Authority and the Hong Kong Institute of Bankers. Through these institutions, the Bank's staff members taught short courses about the banking sector to university students, preparing them for the new and future challenges of the banking sector.

CORPORATE RESPONSIBILITY

The Bank has always endeavoured to fulfil the corporate mission of benefiting the community, with a focus on community care, environmental protection and financial education. Through corporate sponsorships, donations and volunteer activities, the Bank has been supporting welfare organisations and charities and helping those in need in the community. Meanwhile, the Bank actively incorporated the environmental, social and governance (ESG) principles into its daily operations with an aim to disseminate information about environmental protection to its staff members and the public while fulfilling the corporate responsibility for environmental protection.

CARING FOR THE COMMUNITY AND THE ENVIRONMENT

- In March, the Bank donated COVID-19 rapid test kits to the Hong Kong Federation of the Blind and the Baptist Oi Kwan Social Service, providing pandemic-prevention support for underprivileged families and people with disabilities. The Bank also joined the Earth Hour 2022 environmental protection activity organised by the World Wide Fund for Nature.

- In April, through New World Development's Share for Good platform, the Bank made a donation to Yan Chai Hospital for its purchase of urgently needed supplies.

- In June, the Bank arranged visits to families of the visually impaired who are members of the Hong Kong Federation of the Blind, presenting gift packs of food, daily necessities and anti-pandemic supplies, and reminding them to properly implement pandemic prevention measures.

- In July, the Bank worked with the Baptist Oi Kwan Social Service to organise the Young Artists Celebrating Hong Kong's Return to the Motherland activity and presented gift packs of food and anti-pandemic supplies.

- In August, the Bank supported and participated in the Yan Chai Fortune Bag 2022 organised by Yan Chai Hospital. In addition to sponsoring the activity, the Bank arranged for its volunteers to visit the elderly living alone and presented fortune bags to express our care during the pandemic.

- In September, the Bank held lantern-making classes for the New Home Association during the Mid-Autumn Festival and gave gift packs containing festival food and anti-pandemic supplies, sharing joy with underprivileged students and their families during the pandemic.

- In November, the Bank's volunteer team members went to Golden Beach in Tuen Mun to conduct beach-cleaning activities. These included collecting coastal litter as well as helping the Green Council to analyse data and understand the causes of coastal pollution. These activities were conducive to promoting the cause of protecting the environment in general and the marine ecosystem in particular. The Bank also organised a bank visit for students from Baptist Oi Kwan Social Service, giving them a talk on career planning and providing them with financial tips. This enhanced their understanding of the daily operations of banks and the importance of financial planning, thereby encouraging them to start saving from an early age and to be well-prepared to realise their dreams.

CHIEF EXECUTIVE'S STATEMENT

Chong Hing Bank supports the Strive and Rise Programme launched by the HKSAR Government to help primary secondary school students from underprivileged families rise out of inter-generational poverty. Under the programme, volunteer mentors shared their life experiences and provided guidance to help the students make personal development plans.

The Bank also participated in the Life Buddies Mentoring Scheme launched by the Commission on Poverty, through which it organised mock interviews for more than 20 students of the Po Leung Kuk Lee Shing Pik College and arranged visits to the visually impaired. Through this programme, the Bank's volunteer mentors shared their life and career experiences, and gave advice and guidance to the students, helping them set their life goals and direction and work towards realising their dreams and goals. In addition, students had the chance to reach out to the community and participate in volunteer activities supporting those in need.

For the third time the Bank joined the Child Development Fund programme organised by the Labour and Welfare Bureau by providing matching donations to 50 children of the Baptist Oi Kwan Social Service programme. The Fund provides support to children in identifying their long-term vision, developing savings habits and achieving personal growth.

AWARDS AND RECOGNITIONS

The Bank is committed to providing quality banking services and improving operational efficiency, while also actively participating in charitable activities. Its achievements and contributions were recognised by a variety of organisations in 2022:

- In the 2022 Top 1000 World Banks list released by the British magazine The Banker, Chong Hing Bank climbed to 339th place, up 37 spots from the previous year and maintaining its ranking among the top 400 banks for the fourth consecutive year. Since becoming a member of Yuexiu Group in 2014, the Bank's ranking has risen by more than 360 places, eloquently demonstrating the continuous improvement in its overall strength.

CHIEF EXECUTIVE'S STATEMENT

- The Bank's Shenzhen Branch won the Best Innovative Cooperation Award in the Agricultural Development Bank of China - Outstanding Underwriting Market Maker for Financial Bonds 2021.

- The Chong Hing Bank Group received three awards presented by Cyberport, namely the FinTech Transformation Award, the FinTech Talent Development Award and the FinTech Talent Award under The Financial Practitioner FinTech Training Programme 2022. The awards recognised the Bank's outstanding performance in promoting digital transformation and training talent.

- The Bank was named HR Team of the Year in The Hong Kong HR Awards 2021/22 presented by JobsDB.

- The Bank won the Good MPF Employer Award for 2021-2022, the e-Contribution Award and the MPF Support Award presented by the Mandatory Provident Fund Schemes Authority.

CHIEF EXECUTIVE'S STATEMENT

- The Bank won the Social Capital Builder Logo Award presented by the Community Investment and Inclusion Fund under the Home and Youth Affairs Bureau.

- For the third consecutive year, the Happy Company logo was presented to the Bank 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 15 Years plus Caring Company Logo was awarded to the Bank by the Hong Kong Council of Social Service.

- The Bank won the Second Runner-up Award in the Industrial and Commercial Institutions and Group of the Charity Raffle Competition, and the Raffle Sales – Outstanding Award presented by the Tung Wah Group of Hospitals.

CORPORATE GOVERNANCE

The Bank strictly abides by the relevant regulations and regulatory requirements and proactively adopts and implements corresponding measures while striving to improve its corporate governance standards, so as to ensure the sustainable development of the Bank.

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

LOOKING AHEAD

For the future outlook, with the optimisation and implementation of pandemic prevention measures in the Mainland, and the re-opening of the Hong Kong-Mainland border, the business environment is expected to improve on a continuous basis. In view of the return to normalcy after the pandemic and the expected market trends, Chong Hing Bank will strive to expand its customer base, introduce products and services that meet the needs of customers, leverage on the strength of its cross-border expertise, continue to promote the transformation of its retail business, and spare no effort in developing specialised and new corporate banking business. In addition, the Bank will continue to enhance its technological capabilities and digital transformation. It will strengthen its capabilities in customer service and value product development, drive the transformation and development of banking business using science and technology, and systematically build a platform for cross-border clearing and settlement, cross-border investment and financing, and cross-border risk management. As regards its Mainland business, the Bank will invest further resources into accelerating business development and continue to establish its presence in selected tier-2 cities in the Mainland and the Greater Bay Area.

CHIEF EXECUTIVE'S STATEMENT

IN APPRECIATION

In the face of the continuing impact of the pandemic and the complex and volatile market environment, it has not been easy for the Bank to maintain steady growth. I would like to express my gratitude to the Board of Directors for their support and guidance for achieving the Bank's strategic goals. I am also grateful to the management team and staff members for their perseverance in tackling the challenges and for their dedication and commitment to driving the Bank's business performance. In addition, I would like to extend my sincere gratitude to our shareholders, partners and customers for their long-term trust and support.

The year 2023 marks the 75th anniversary of Chong Hing Bank. Despite the numerous changes experienced over the past three quarters of a century, we have remained dedicated to the principle of prudent operation and diligent service. We will uphold the business philosophy of seeking progress in a stable manner and aiming high, and will strive to lift the development of Chong Hing Bank to new heights.

ZONG Jianxin
Chief Executive

Hong Kong, 6 April 2023

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 2022.

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.

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 2022 (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 119 to 173 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 "2022 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:

	2022 HK$'000	2021 HK$'000
Corporate and personal banking	**4,021,920**	3,457,614
Financial markets activities	**522,420**	589,220
Securities business	**117,460**	165,023
Others	**444,064**	184,598
	5,105,864	4,396,455

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.

DIRECTORS' REPORT

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 2022 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 72 and 73.

An interim cash dividend of HK$100,000,000 (2021: HK$107,015,000) 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 2022 of HK$130,000,000 (2021: HK$260,000,000).

FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as of 31 December 2022 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 of 31 December 2022, calculated under the provisions of sections 291, 297 and 299 of the Companies Ordinance, amounted to HK$9,974,312,000 (2021: HK$9,711,817,000).

SHARES ISSUED

During the year, a total of 1 ordinary share of the Bank was issued. Details of the issued share capital of the Bank during the year ended 31 December 2022 are set out in note 30 to the consolidated financial statements.

DEBENTURES ISSUED

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

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

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
Mr CHAN Kam Ki Vincent(1)
Mr CHAN Man Mei
Mr CHAN Tai On
Ms CHAN Yun Ling(2)
Mr CHIU Tak Wah Edward(3)
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(4)
Mr YEE Wing Chi(5)
Mr YOUNG Chi Ho(6)

Notes:

(1) Resigned as a Director of the relevant subsidiary of the Bank with effect from 26 September 2022.

(2) Appointed as a Director of the relevant subsidiaries of the Bank with effect from 1 October 2022.

(3) Resigned as a Director of the relevant subsidiaries of the Bank with effect from 1 October 2022.

(4) Resigned as a Director of the relevant subsidiaries of the Bank with effect from 1 September 2022.

(5) Appointed as a Director of the relevant subsidiary of the Bank with effect from 14 September 2022.

(6) Appointed as a Director of the relevant subsidiaries of the Bank with effect from 1 September, 26 September and 11 November 2022 respectively.

DIRECTORS' REPORT

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 2022 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 2022, 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.

Subsequent to the termination of the share award scheme of the Bank with effect from 22 October 2021, the Bank operates an equity-settled share-based compensation scheme which is a share option scheme (the "Share Option 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.

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$269,189 (2021: HK$76,690).

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 2022 have been audited by Ernst & Young who shall retire and, being eligible, offer itself for re-appointment as the Bank's auditor at the 2023 annual general meeting of the Bank.

On behalf of the Board

ZHANG Zhaoxing
Chairman

Hong Kong, 6 April 2023

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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 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 the 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.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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 2022, 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 6 April 2023

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 six 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 2022, the Chairman held a meeting that was attended only by Independent Non-executive Directors.

During the year, the Board also had a meeting 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.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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 2022/2023 was reviewed and renewed.

ATTENDANCE RECORDS

The attendance records of individual Directors at the Board, Board Committee meetings and general meetings held in 2022 are as follows:

	2022 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	General Meetings
Chairman and Non-executive Director								
Mr ZHANG Zhaoxing	6/6	–	–	–	3/3	–	–	Nil[(1)]
Executive Directors								
Mr ZONG Jianxin	6/6	–	–	15/15	–	–	5/5	Nil[(1)]
Mr LAU Wai Man	6/6	–	–	15/15	–	–	5/5	Nil[(1)]
Non-executive Directors								
Mr LI Feng	6/6	–	–	–	–	5/5	5/5	Nil[(1)]
Mr CHOW Cheuk Yu Alfred	6/6	4/4	1/1	–	3/3	–	–	Nil[(1)]
Ms CHEN Jing	6/6	1/4	–	–	–	–	–	Nil[(1)]
Independent Non-executive Directors								
Mr CHENG Yuk Wo	6/6	4/4	1/1	–	3/3	5/5	–	Nil[(1)]
Mr LEE Ka Lun	6/6	4/4	–	–	3/3	5/5	5/5	Nil[(1)]
Mr YU Lup Fat Joseph	6/6	4/4	–	–	3/3	5/5	–	Nil[(1)]

Note:

(1) The holding of 2022 annual general meeting was by way of written resolution of the sole shareholder in lieu of annual general meeting.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

BOARD EFFECTIVENESS

During the year ended 31 December 2022, 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	✓	✓

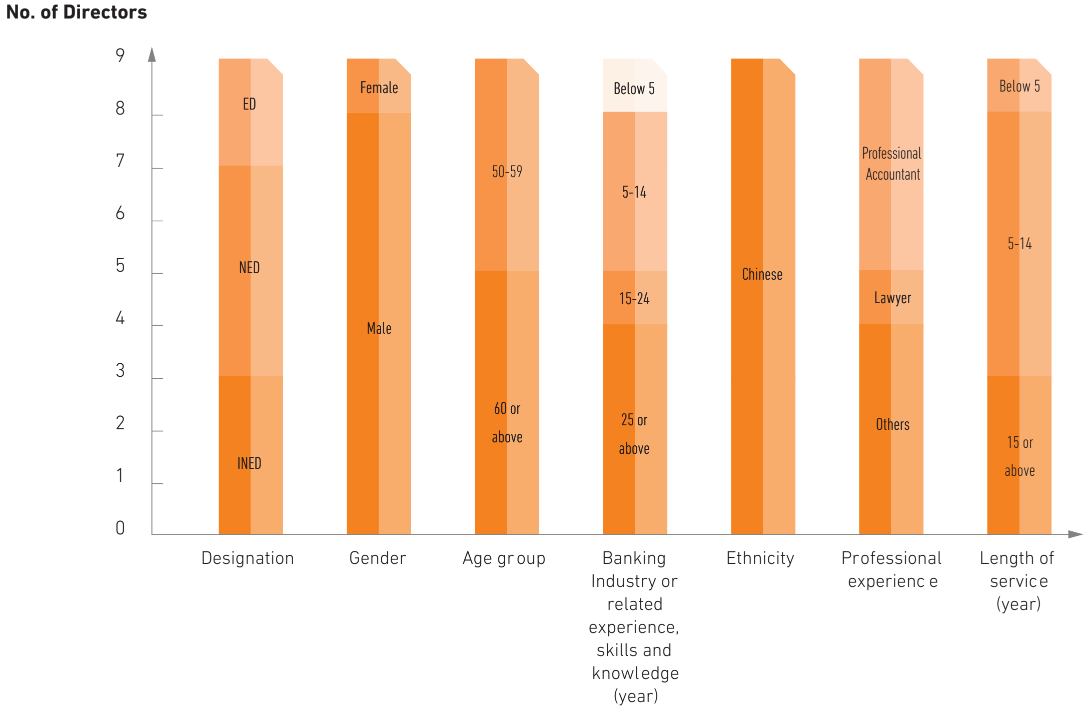
CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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 2022, 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 2022, 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 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.

Four committee meetings were held in 2022 and the attendance records of the Audit Committee members are set out on page 45 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 2021 and for the six months ended 30 June 2022;

(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) recommended the appointment of the Bank's new external auditor, including the consideration of 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, and reviewed the expected annual audit and non-audit service fees of the Bank for the year of 2022;

(v) reviewed the external auditor's audit strategy and plan of the Group for the year of 2022 and work progress of audit work;

(vi) reviewed the report for the year of 2021 and internal control recommendations from the external auditor to the Audit Committee;

(vii) reviewed the quarterly report of internal audit and the implementation of related audit recommendations, report of internal audit related to the "Regulations on Responsibility Identification Audit Evaluation (Trial Implementation)", annual review of internal audit procedures and the assessment of internal audit effectiveness for the year of 2021;

(viii) approved the internal audit plan for the year of 2022 and the revised Internal Audit Policy;

(ix) reviewed the result of annual review to the Terms of Reference of the Audit Committee;

(x) reviewed the progress of the rectification work of internal control recommendations from the previous external auditor (PricewaterhouseCoopers) for the year of 2021; and

(xi) assessed the structure, scope of work, qualification and experience of employee and employee's training course of the Internal Audit and Finance and Capital Management Division of the Bank, and confirmed that the Bank has sufficient resources in accounting, internal audit 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 2022 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 2022 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2022. The Audit Committee therefore recommended the Group's financial statements for the year ended 31 December 2022 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.

One committee meeting was held and the attendance records of the Connected Party Committee members are set out on page 45 of this Annual Report. Besides, Connected Party Transactions Committee 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 by written resolutions.

* *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 and the Digitalization Management Committee with defined Terms of Reference that are in line with best practices. The above specialized 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 digitalization development of the Group.

15 Executive Committee meetings were held in 2022 and the attendance records of the Executive Directors are set out on page 45 of this Annual Report.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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, composition and diversity of the Board and its committees; identifying potential candidate suitably qualified to become Directors or take up designated Senior Management or Key Personnel positions of the Bank; reviewing and making recommendations to the Board on 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 appropriate and in line with the Group's corporate culture, risk appetite, risk culture, long-term interests, performance and control environment; ensuring that no Director, Senior Management, Key Personnel, Risk Control Personnel or any of his/her 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 of fixed remuneration, performance based variable remuneration and benefits in kind (where applicable). Considering the Group's business and scale, the Group will use an appropriate level of variable incentive compensation arrangements. This is consistent with the Group's risk appetite of growing steadily and prudently by encouraging long-term performance rather than short-term risk taking, and 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, the market benchmarking and trend, and the need to encourage employee behaviors that support the Group's risk management framework, corporate culture and values, and long-term financial soundness.

Review of Remuneration Policy

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 level of performance. The Nomination and Remuneration Committee has reviewed and endorsed the Remuneration Policy in 2022, including the reassessment of the principles applied in determining the remuneration package and structure, the major change is to revise the deferral arrangement on variable remuneration.

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 Group 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 2022, 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 Group'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.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

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 (e.g. financial or non-financial factors in the "Balanced Scorecard" or the "Corporate Culture and Values" failed to reach any specified targets) at any level will result in a reduction to or elimination of the allocation of its/his/her remuneration, including salary review and/or discretionary variable remuneration. 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, aligns variable awards with its long-term value creation and the time horizon of risk.

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. Management of business units will not determine the remuneration of risk control personnel.

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 Group. 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 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 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.

Summary of Work

Three Committee meetings were held in 2022 and the attendance records of the Nomination and Remuneration Committee members are set out on page 45 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) reviewed the structure, size, composition (including tenure, skills, knowledge and experience) and diversity of the Board and its committees and made recommendations to the Board;

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

(iv) assessed the past performance and ongoing suitability of each Director (including Chief Executive serving as Executive Director) taking into account the Director's time commitment to the business of the Bank as well as any potential conflicts of interest arising, and provided advice to the Board;

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

(vi) reviewed the updated policy of Senior Management's and Key Personnel's succession and recommended to the Board;

(vii) reviewed the salary adjustment proposal for 2022 and the variable remuneration for 2021 for the Executive Directors, Senior Management and Key Personnel, and recommended to the Board;

(viii) made recommendations to the Board on the appointments and remuneration packages of Independent Non-executive Director, a number of Senior Management and Key Personnel;

(ix) approved the Bank's variable remuneration budget proposal for 2023 and reported to the Board;

(x) approved the Bank-level deferred cash bonus to be paid in 2022 and reported to the Board;

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

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

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

(xiii) reviewed the Bank-level 2023 salary review proposal and recommended to the Board;

(xiv) reviewed and confirmed the vesting arrangement for the unvested shares for 2019 and 2020 and reported to the Board;

(xv) reviewed the proposal of the 「開門紅」incentive plan for 2023 and recommended to the Board;

(xvi) reviewed the update of the Remuneration Policy and its appendix and recommended to the Board;

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

(xviii) received the report on Independent Review of the Group for 2021 against "Guideline on a Sound Remuneration System" ("CG-5") under the SPM issued by the HKMA by Internal Audit Division; and

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

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 12 and 7 employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2021 and 2022 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 2021 and 2022 is as follows:

Remuneration Amount and Quantitative Information (HK$'000)	2022	2021
Senior Management		
Fixed Remuneration		
Number of employees	**16**	12
Total fixed remuneration	**52,089**	45,700
Of which: cash	***52,089***	*45,700*
Variable Remuneration		
Number of employees	**15**	11
Total variable remuneration	**8,683**	9,142
Of which: cash	***8,683***	*9,142*
Of which: deferred	***3,473***	*3,657*
Of which: shares	***N/A***	*N/A*
Of which: deferred	***N/A***	*N/A*
Total Remuneration	**60,772**	54,842
Key Personnel		
Fixed Remuneration		
Number of employees	**8**	9
Total fixed remuneration	**19,813**	20,392
Of which: cash	***19,813***	*20,392*
Variable Remuneration		
Number of employees	**7**	7
Total variable remuneration	**5,524**	7,028
Of which: cash	***5,524***	*7,028*
Of which: deferred	***2,030***	*1,406*
Of which: shares	***N/A***	*N/A*
Of which: deferred	***N/A***	*N/A*
Total Remuneration	**25,337**	27,420

Notes:

(1) The above disclosed remuneration figures include 4 Senior Management retired or left the Group in 2022.

(2) There were 5 positions changed the category from Key Personnel to Senior Management in 2021.

(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 retired from or left the Group in August 2021.

CORPORATE GOVERNANCE REPORT

as of 6 April 2023

(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.

Deferred and Retained Remuneration (HK$'000)	2022				
	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	3,834	3,834	–	–	1,278
Key Personnel					
Cash	1,142	1,142	–	–	498
Total	4,976	4,976	–	–	1,776

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

Notes:

(1) The above disclosed outstanding and paid deferred cash bonus include 3 former Senior Management retired or left the Group in 2022.

(2) The above disclosed figures of outstanding and paid deferred cash bonus for 2021 of Key Personnel relate to 2020 variable remuneration.

Special Payments (HK$'000)	2022	2021
Total amount of Guaranteed Bonuses	–	–
Number of employees	–	–
Total amount of Sign-on Awards	729	760
Number of employees	2	1
Total amount of Severance Payments	–	–
Number of employees	–	–

Note: 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.

Five committee meetings were held in 2022 and the attendance records of the Risk Committee members are set out on page 45 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 Capital Management Policy, the Dividend Policy, the Capital Contingency Plan, the Recovery Plan, the Internal Capital Adequacy Assessment Process, the Liquidity Risk Management Policy, the Contingency Funding Plan, Supervisor-driven Stress Testing, Group Exposure and Clustering Limit Policy, Compliance Policy, Business Continuity Planning Policy, the Policy for Counterparty Credit Risk Management, Sustainable Strategic Statement, Green, Social and Sustainability Deposit Framework, Sustainable Lending Policy, Sustainable Investment Policy 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.

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

DIGITALIZATION STRATEGY COMMITTEE

The Digitalization 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 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 2022, the Digitalization Strategy Committee held five committee meetings. The attendance records of the Digitalization Strategy Committee members are set out on page 45 of this Annual Report. The major duties performed by the Digitalization Strategy Committee during the year included:

(i) reviewed and oversaw the summary report and status of improvement since the Bank's new Core Banking System (Phase 2) has lunched, the progress of the Bank's "14th Five-year" strategic plan and the development of information technology projects in 2022;

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

(iii) reviewed the Bank's special budget for information technology projects in 2022, the work plan for the special budget for information technology projects in 2023 and made recommendations and reported to the Board;

(iv) reviewed and discussed the cyber resilience plan and its budget and monitored the implementation of cyber resilience plan, management of cyber incident response and recovery activities on an ongoing basis;

(v) reviewed and discussed the status and assessment report of the Bank's the maturity of digitalization;

(vi) reviewed the report of the key problem and suggested measures of the Bank's digitalization transformation; and

(vii) discussed its responsibility in the future and 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 2022, 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 64 to 69 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 performed by the business units where risks are taken. The second line of defence is performed 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 performed by the Internal Audit Division which is responsible for providing assurance on the effectiveness of the Bank's risk management framework.

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 reputation 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 2022, the Bank has engaged an external consultant 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 2022 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, 6 April 2023

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the member of Chong Hing Bank Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 72 to 224, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
Refer to significant accounting policies in Note 4, and disclosures on credit risk in Note 7, Note 14 and Note 21 to the consolidated financial statements. As at 31 December 2022, gross advances to customers amounted to HK$167 billion and the expected credit loss ("ECL") allowances for advances to customers amounted to HK$3 billion. The assessment of credit risk and the measurement of ECLs are required to be based on unbiased and probability-weighted possible outcomes, and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group has adopted a forward-looking expected loss impairment model to recognise ECLs in respect of advances to customers. Significant management judgement and estimates are involved in the calculation of ECLs, including: - segmentation of financial assets according to credit risk characteristics - criteria to determine whether a significant increase in credit risk has occurred - determination of the ECL stage, estimation of probability of default, loss given default, exposure at default and discount rates - selection of forward-looking macroeconomic scenarios and their probability weightings For individual impairment allowances, management judgement is required to determine the probability of multiple exit or work out scenarios and estimate the impact that the uncertainties observed in current economic environment, including heightened risk associated with the Mainland China real estate sector, may have on these exit strategies, the time to collect, and collateral valuation.	We obtained an understanding of the Group's credit management policies and procedures, including measurement and recognition of ECLs. We read the minutes of the Group's Risk Committee, Risk Management Committee, Expected Credit Loss Committee, and Model Governance Committee meetings, to understand ECL model governance and monitoring and the approval of the internal credit risk ratings and assumptions used in the ECL calculation. We performed walkthroughs of credit management processes and evaluated the Group's impairment methodology, including management judgement in respect of the segmentation of portfolio, the criteria on significant credit deterioration and the measurement approach of expected credit losses. We assessed the design and tested the operating effectiveness of the key controls over the systems and processes of credit assessment, loan classification, stage classification and calculation of ECL allowances. Our testing of the loan impairment processes' controls included, amongst others, an evaluation of the governance in respect of the selection and probability weightings of economic scenarios and the controls over data input. For the ECL allowances as at 31 December 2022, we performed testing on the completeness and accuracy of the data used in the ECL calculation by comparing the individual loan data to the relevant data source on a sample basis; evaluating the calculation logic and data processing; and recomputing management's calculation of the ECL allowances. We engaged our internal specialists in evaluating the impairment methodology and model enhancements. We assessed the appropriateness of the ECL model used by management in determining impairment allowances, including changes made to forward-looking macroeconomic scenarios, by evaluating the key parameters and assumptions adopted in the model.

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
In view of the significance of ECL allowances and the management judgement and estimates involved, the ECL allowances for advances to customers are considered a key audit matter.	In addition, for the corporate lending portfolio, we adopted a risk-based sampling approach to perform loan review procedures, with focus on high-risk industries including the Mainland China real estate sector, in order to assess the appropriateness of management's credit risk rating and ECL staging by reviewing the borrowers' financial performance, valuation of collateral and other available information. As part of our loan review procedures, we selected samples of credit-impaired loans and advances and assessed their stage 3 ECL allowances by evaluating the timing and means of realisation of collateral, the forecast of recoverable cash flows, the viability of recovery plans and other credit enhancements. We also checked and evaluated the financial statement disclosures on credit risk relating to advances to customers.
Valuation of Level 3 financial assets	
Refer to significant accounting policies in Note 4, and disclosures on fair values and the valuation hierarchy of financial instruments in Note 7 and Note 19 to the consolidated financial statements. As at 31 December 2022, the Group's financial assets and liabilities measured at fair value amounted to HK$68,864 million and HK$1,301 million, respectively. In connection with this, HK$176 million of the Group's financial assets measured at fair value were classified as Level 3 under the fair value hierarchy. To estimate the fair value of these Level 3 financial assets, management is required to exercise significant judgement in respect of the selection of appropriate valuation techniques, and the development of assumptions and significant unobservable inputs into the valuation models. Valuation results can vary significantly under different valuation techniques or assumptions. In view of the complexity and significance of management judgements and assumptions required, valuation of Level 3 financial assets is considered as a key audit matter.	We obtained an understandingof the Group's valuation policies and procedures for Level 3 financial assets. In conjunction with our internal specialists, we performed, amongst others, the following procedures for the Level 3 financial assets: • Critically evaluated the appropriateness of valuation techniques and assumptions through comparison with the valuation techniques that are commonly used in the market. • Independently revalued the financial assets and compared management's valuation outcome to our independent testing. We obtained an understanding and evaluated any material differences in valuation outcomes. • Assessed the valuation inputs used and agreed to third-party data sources where available. We have checked and evaluated the financial statement disclosures relating to fair value of Level 3 financial assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong
6 April 2023

FINANCIAL STATEMENTS – CONTENTS

FINANCIAL STATEMENTS – CONTENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Interest income		**7,404,760**	5,407,975
Interest expense		**(3,420,426)**	(2,122,252)
Net interest income	*9*	**3,984,334**	3,285,723
Fee and commission income		**559,929**	624,622
Fee and commission expenses		**(81,964)**	(95,183)
Net fee and commission income	*10*	**477,965**	529,439
Net income from trading and investments	*11*	**466,438**	407,508
Other operating income	*12*	**177,127**	173,785
Operating expenses	*13*	**(1,972,612)**	(1,871,010)
Operating profit before impairment allowances		**3,133,252**	2,525,445
Net impairment losses on financial assets	*14*	**(1,979,761)**	(792,612)
Operating profit after impairment allowances		**1,153,491**	1,732,833
Net loss on disposal of equipment		**(527)**	(7,988)
Net (loss) income on fair value adjustments on investment properties	*24*	**(610)**	6,834
Share of profits of associates	*23*	**112,666**	64,901
Profit before taxation		**1,265,020**	1,796,580
Taxation	*15*	**(121,830)**	(291,789)
Profit for the year			
– Attributable to equity owners of the Bank		**1,143,190**	1,504,791

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Profit for the year	**1,143,190**	1,504,791
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 on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	**128,833**	1,163
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**(625,514)**	194,138
Net (losses) gains on investments in debt instruments measured at FVOCI	**(253,042)**	406,518
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	**(63,757)**	(68,686)
Income tax effect relating to disposal of financial assets measured at FVOCI	**10,520**	11,333
Income tax effect relating to fair value change of financial assets measured at FVOCI	**33,822**	(58,160)
Share of other comprehensive income of associates	**(109,831)**	(9,275)
Other comprehensive income for the year (net of tax)	**(878,969)**	494,534
Total comprehensive income for the year	**264,221**	1,999,325
Total comprehensive income attributable to:		
Equity owners of the Bank	**264,221**	1,999,325

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at of 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Assets			
Cash and short-term funds	17	**34,702,201**	32,318,859
Placements with banks	17	**5,667,404**	525,627
Derivative financial instruments	18	**1,610,386**	1,403,842
Investments in securities	19	**65,748,813**	56,371,763
Advances and other accounts	21	**170,396,926**	161,830,511
Tax recoverable		**104,389**	2,051
Interests in associates	23	**404,193**	426,739
Investment properties	24	**319,764**	325,938
Property and equipment	25	**982,682**	1,091,895
Deferred tax assets	32	**15,644**	72,198
Intangible assets	34	**814,263**	878,135
Total assets		**280,766,665**	255,247,558
Liabilities			
Deposits and balances with banks	27	**9,140,137**	7,671,283
Financial assets sold under repurchase agreements	26	**4,504,613**	2,036,268
Deposits from customers	27	**223,488,227**	201,087,108
Derivative financial instruments	18	**1,300,681**	2,161,929
Other accounts and accruals	35	**4,552,829**	2,825,363
Current tax liabilities		**13,538**	86,247
Certificates of deposit	28	**–**	1,597,765
Loan capital	29	**1,746,101**	3,009,489
Deferred tax liabilities	32	**77,904**	176,339
Total liabilities		**244,824,030**	220,651,791
Equity attributable to owners of the Bank			
Share capital	30	**17,030,884**	15,280,884
Additional equity instruments	31	**5,427,996**	5,427,996
Reserves		**13,483,755**	13,886,887
Total equity		**35,942,635**	34,595,767
Total liabilities and equity		**280,766,665**	255,247,558

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 6 April 2023 and signed on its behalf by:

Zhang Zhaoxing
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	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 2022		15,280,884	5,427,996	(182)	–	330,559	197,136	1,388,500	361,703	582,000	11,027,171	34,595,767
Profit for the year		–	–	–	–	–	–	–	–	–	1,143,190	1,143,190
Other comprehensive income (net of tax)		–	–	–	–	(253,455)	–	–	(625,514)	–	–	(878,969)
Total comprehensive income for the year		–	–	–	–	(253,455)	–	–	(625,514)	–	1,143,190	264,221
Issue of share capital	*30*	1,750,000	–	–	–	–	–	–	–	–	–	1,750,000
Equity settled share-based transaction		–	–	–	–	–	–	–	–	–	–	–
Distribution payment for additional equity instruments		–	(307,353)	–	–	–	–	–	–	–	–	(307,353)
Transfer from retained profits		–	307,353	–	–	–	–	–	–	–	(307,353)	–
Interim dividend paid	*16*	–	–	–	–	–	–	–	–	–	(100,000)	(100,000)
Final dividend paid	*16*	–	–	–	–	–	–	–	–	–	(260,000)	(260,000)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	–	32,000	(32,000)	–
At 31 December 2022		17,030,884	5,427,996	(182)	–	77,104	197,136	1,388,500	(263,811)	614,000	11,471,008	35,942,635

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	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 (net of tax)		–	–	–	–	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 retained profits of the Group included retained profits of HK$303,934,000 (2021: retained profits of HK$221,778,000) retained by the associates of the Group.

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

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

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**1,265,020**	1,796,580
Adjustments for:			
Net interest income	*9*	**(3,984,334)**	(3,285,723)
Net impairment losses on financial assets	*14*	**1,979,761**	792,612
Net loss on disposal of equipment		**527**	7,988
Net gains on disposal of debt securities measured at FVOCI	*11*	**(63,757)**	(68,686)
Net loss (income) on fair value adjustments on investment properties	*24*	**610**	(6,834)
Net gains on financial instruments at fair value through profit or loss		**(70,298)**	—
Share of profits of associates	*23*	**(112,666)**	(64,901)
Net losses on fair value hedge		**2,269**	407
Dividend received from investments	*12*	**(6,713)**	(8,976)
Depreciation and amortisation	*13*	**352,061**	342,684
Equity settled share-based payment expenses		**—**	(2,201)
Exchange adjustments		**407,778**	200,130
Operating cash flows before movements in operating assets and liabilities		**(229,742)**	(296,920)
(Increase) decrease in operating assets:			
Money at call and short notice		**—**	26,000
Placements with banks with original maturity over three months		**(1,458,463)**	(235,655)
Financial assets at fair value through profit or loss		**(1,103,689)**	(617,875)
Advances to customers		**(12,013,219)**	(13,105,923)
Reverse repos		**1,378,044**	(443,850)
Other accounts		**705,337**	3,345,425
Increase (decrease) in operating liabilities:			
Deposits and balances with banks		**1,468,854**	(558,291)
Financial assets sold under repurchase agreements		**2,468,345**	1,249,728
Deposits from customers		**22,401,119**	17,858,817
Certificates of deposit		**(1,597,765)**	(953,765)
Derivative financial instruments		**411,678**	(403,530)
Other accounts and accruals		**679,730**	(772,447)
Cash generated from operations		**13,110,229**	5,091,714
Hong Kong profits tax (paid) recovered		**(160,077)**	40,675
Overseas tax paid		**(132,062)**	(109,555)
Interest received		**5,784,472**	4,585,691
Interest paid		**(2,239,893)**	(1,722,785)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**16,362,669**	7,885,740

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
INVESTING ACTIVITIES			
Interest received from investments in securities		**1,035,004**	718,872
Dividends received on investments in securities	*12*	**6,713**	8,976
Dividends received from associates		**25,380**	28,440
Purchase of financial assets measured at amortised cost		**(5,808,735)**	(1,479,191)
Purchase of financial assets measured at FVOCI		**(141,012,890)**	(89,469,892)
Purchase of property and equipment		**(117,763)**	(166,768)
Purchase of intangible assets		**(197)**	(80,912)
Proceeds from redemption of financial assets measured at amortised cost		**2,292,196**	892,772
Proceeds from sale and redemption of financial assets measured at FVOCI		**133,622,863**	86,562,226
Proceeds from disposal of equipment		**37,941**	70,851
NET CASH USED IN INVESTING ACTIVITIES		**(9,919,488)**	(2,914,626)
FINANCING ACTIVITIES			
Net proceeds from issue of share capital	*30*	**1,750,000**	5,300,000
Net proceeds from issue of loan capital	*29*	**1,758,400**	–
Redemption of loan capital	*29*	**(3,004,065)**	–
Interest paid on loan capital	*29*	**(81,503)**	(53,950)
Payment of lease liabilities	*35*	**(191,166)**	(159,167)
Dividends paid to ordinary shareholders		**(360,000)**	(330,773)
Distribution paid on additional equity instruments		**(307,353)**	(305,046)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(435,687)**	4,451,064
NET INCREASE IN CASH AND CASH EQUIVALENTS		**6,007,494**	9,422,178
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**32,387,203**	22,965,025
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**38,394,697**	32,387,203
Represented by:			
Cash and balances with central bank and banks		**11,515,947**	17,312,228
Money at call and short notice		**23,186,254**	15,006,631
Placements with banks			
- with original maturity within three months		**3,692,496**	68,344
		38,394,697	32,387,203

The notes on pages 79 to 224 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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.

Details of the subsidiaries of the Bank (together collectively referred to as the "Group") are set out in note 22 to the consolidated financial statement.

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

The following amendments to accounting standards are applicable for reporting periods commencing after 1 January 2022:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (see page 46)*
Amendments to Hong Kong Accounting Standards ("HKAS") 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

– Amendments to HKFRS 3 "Business Combinations"

The amendments replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date.

The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the consolidated financial position and performance of the Group.

There are no other HKFRSs that are effective from 1 January 2022 that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2023, and have not been applied in preparing these consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024, Jn addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE *(Continued)*

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

– HKFRS 17 "Insurance Contracts"

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2023.

– Amendments to HKFRS 17 "Insurance Contracts"

Amendments to HKFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to HKFRS 17. In addition, the amendments defer the effective date of HKFRS 17 to annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. As a result of the deferral, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued the amendments to HKFRS 4 to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023.

– Amendment to HKFRS 17 Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

Amendment to HKFRS 17 is a transition option relating to comparative information about financial assets presented on initial application of HKFRS 17, which helps to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and improve the usefulness of comparative information for users of financial statements. An entity that chooses to apply the transition option set out in this amendment shall apply it on initial application of HKFRS 17. The amendment is not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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.

Generally, there is a presumption that a majority of voting rights results in control. 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 ("ECL") 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).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

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. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

- 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 other comprehensive income ("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 consolidated income statement. 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 consolidated income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

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 (cash flow are not SPPI), the related financial asset is classified and measured at fair value through profit or loss. irrespective of the business model.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 year.

Equity instruments

Equity instruments are instruments that meet the definition of equity (under HKAS 32 "*Financial Instruments: Presentation*") 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. The classification is determined on an instrument-by-instrument basis. 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, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(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.

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

The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(iv) Derecognition other than on a modification (Continued)

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities

(i) *Classification and subsequent measurement*

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.

For financial liabilities measured at amortised cost, after initial recognition, interest-bearing financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 consolidated statement 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

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.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

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

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the consolidated income statement as net income from trading and investments. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement as net income from trading and investments.

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

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

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 consolidated statement of financial position at amortised cost.

Securities purchased under agreements to resell ("reverse repos") are reported not as purchases of the securities and not recognised on the consolidated statement of financial position, but the consideration paid is recorded under advances and other accounts, and are carried in the consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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. Goodwill is initially measured at cost, and measured at cost less any accumulated impairment losses after initial recognition.

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

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

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, less any impairment losses. 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 post-acquisition results and other comprehensive income of the associates in the consolidated income statement and consolidated statement of other comprehensive income, respectively. 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 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTERESTS IN ASSOCIATES *(Continued)*

The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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 consolidated statement of financial position and 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.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the statement of profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

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.

Performance obligations satisfied over time mainly include investment management, loans, overdrafts and guarantees and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include services where performance obligations are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlyng transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from account management, sales and placement, securities dealings, credit card, loans, overdrafts and guarantees and trade finance.

Dividend income

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 associated with the dividend will flow to the Group and the amount of dividend can be measured reliably).

Service income

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

Performance obligations satisfied over time include asset management, advisory, safe deposit box rentals and other banking services, where the customer simultaneously receives and consumes the benefis provided by the Group's performance as the Group performs. These include services where performance oblications are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlyng transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from remittance, settlement, account management, money exchange, autopay, direct debit and other banking services.

Premiums

Premiums written on direct insurance business are recognised as income when the risk of an insurance policy is incepted.

Premiums written on inward reinsurance business are recognised when sufficient information is received from ceding companies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Agency commission

Agency commission received or receivable 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 consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

PROPERTY AND EQUIPMENT

Property and equipment including equipment, land and buildings, which mainly comprise of branches and offices are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 statement of profit or loss.

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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY AND EQUIPMENT *(Continued)*

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

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 consolidated 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 statement of profit or loss in the period in which the item is derecognised.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment” for owned property and/or accounts for such property in accordance with the policy stated under “Leases” for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property and equipment” above.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 of the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of 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.

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 statement of profit or loss.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the statement of profit or loss 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 securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

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 statement of profit or loss 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.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas branches are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas branches which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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.

Defined benefit plan

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.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (excluding amount included in net interest on the net defined benefit liability) and the return on plan assets (excluding amount included in net interest on the net defined benefit liability), is reflected immediately in the consolidated 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 consolidated income statement in subsequent periods. Past service costs are recognised in profit or loss at the earlier of the date of the plan amendment or curtailment; and the date that the Group recognises restructuring-related costs. 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 non-routine settlements), recognised in the consolidated income statement;

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

Defined benefit plan *(Continued)*

- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the consolidated statement 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.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Proposed final dividends are disclosed in the notes to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Bank's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts deferred tax liabilities or assets are expected to be settled or recovered.

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)

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

LEASES

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

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, variable lease payments that depend on an index or a rate and the payments to be made under reasonably certain to exercise termination option. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The 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.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other accounts and accruals.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASES *(Continued)*

The group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, initial direct costs incurred, any lease payments made at or before the commencement date less any lease incentive received and also includes an estimates of costs to dismantle and remove the underlying asset or to restore the underlying asset on the site on which is located. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are presented within "Property and equipment" in the consolidated statement of financial position.

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 over the lease term. Short-term leases are leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets comprise small items of equipment.

The group as lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price

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.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACTS

Recognition and measurement

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Deferred acquisition costs

The gross costs for acquisition of new and renewal insurance business that are primarily related to the production of that business are deferred and amortised on a time-apportioned basis.

Reinsurance commission income arising on ceded reinsurance contracts is deferred over the period of reinsurance cover and recognised in profit or loss on a time-apportioned basis.

For financial information preparation basis under the Valuation Rules, deferred acquisition costs are not admitted as eligible assets and adjustment for the valuation of deferred acquisition costs is dealt with in reserves.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACTS *(Continued)*

Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition cost assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts assumed by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. The claims recoverable is recognised on the expected claims and benefits arising under related reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment at the end of the reporting period. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the revenue account. If a reinsurer is unable to satisfy its obligations under the reinsurance contracts, the liability becomes the responsibility of the Group.

RELATED PARTIES

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES *(Continued)*

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(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.

In response to the deterioration in the property market in China in 2022, the management of the Group exercised judgment in assessing significant increase in credit risk arising from counterparties associated with real estate industry in China, and determining the respective ECL stage with reference to the ECL model framework of the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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, 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 and others 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 broking, insurance underwriting, 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.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2022 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	5,970,768	1,417,928	11,351	4,713	–	7,404,760
Interest expense to external customers	(3,228,396)	(152,673)	(22)	(39,335)	–	(3,420,426)
Inter-segment interest income *(Note)*	514,469	–	–	423,998	(938,467)	–
Inter-segment interest expense *(Note)*	–	(938,467)	–	–	938,467	–
Net interest income	3,256,841	326,788	11,329	389,376	–	3,984,334
Fee and commission income	449,007	344	105,555	5,023	–	559,929
Fee and commission expenses	(81,574)	(172)	(218)	–	–	(81,964)
Net income (loss) from trading and investments	262,213	195,460	(3)	8,768	–	466,438
Other operating income	135,433	–	797	40,897	–	177,127
Total Operating income						
Segment revenue	4,021,920	522,420	117,460	444,064	–	5,105,864
Comprising:						
– Segment revenue from external customers	3,507,451	1,460,887	117,460	20,066		
– Inter-segment transactions	514,469	(938,467)	–	423,998		
Operating expenses	(1,716,057)	(145,549)	(84,343)	(26,663)	–	(1,972,612)
Net impairment (losses) reversal on financial assets	(2,008,472)	28,708	1	2	–	(1,979,761)
Segment profit	297,391	405,579	33,118	417,403	–	1,153,491
Unallocated corporate expenses						(1,137)
Share of profits of associates						112,666
Profit before taxation						1,265,020
Taxation						(121,830)
Profit for the year						1,143,190

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2022 is presented below: (Continued)

Operating segment assets and liabilities as of 31 December 2022

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	183,678,639	94,870,603	231,491	254,156	279,034,889
Interests in associates					404,193
Unallocated corporate assets					1,327,583
Consolidated total assets					280,766,665
Liabilities					
Segment liabilities	226,110,332	17,588,991	145,677	126,613	243,971,613
Unallocated corporate liabilities					852,417
Consolidated total liabilities					244,824,030

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	80,448	709	410	5,402	30,991	117,960
Depreciation and amortisation	316,800	31,995	2,106	1,160	—	352,061

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) 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 expenses	(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) reversal 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
Taxation						(291,789)
Profit for the year						1,504,791

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

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

Operating segment assets and liabilities as of 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

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:

	2022						
	Total operating income HK$'000	Profit (loss) before taxation HK$'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	3,663,067	504,996	59,143	192,122,744	163,796,149	41,137,176	2,134,568
Mainland China	1,379,269	766,998	58,601	83,944,360	76,657,143	18,219,300	390,755
Macau	63,528	(6,974)	216	4,699,561	4,370,738	168,079	11,223
Total	5,105,864	1,265,020	117,960	280,766,665	244,824,030	59,524,555	2,536,546

	2021						
	Total operating income HK$'000	Profit (loss) before taxation HK$'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	3,200,219	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	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

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, deferred tax assets and intangible assets.

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 material risk types associated with the Bank are credit risk, market risk (including currency risk, interest rate risk and price risk) and liquidity risk.

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.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2022 HK$'000	2021 HK$'000
Financial assets		
Financial assets measured at fair value through profit or loss	**3,526,392**	2,145,861
Financial assets measured at FVOCI *(Note 1)*	**65,337,607**	60,852,034
Financial assets measured at amortised cost (including cash and cash equivalents)	**209,232,322**	189,452,707
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	**1,300,681**	2,161,929
Financial liabilities measured at amortised cost *(Note 2)*	**243,134,175**	218,227,276

Note 1: Amount included trade bills measured at FVOCI of HK$7,982,708,000 (2021: HK$8,339,820,000) under advances and other accounts in the consolidated statement of financial position.

Note 2: Loan capital of HK$3,009,489,000 was carried at amortised cost with adjustment of fair value hedge as of 31 December 2021 (see note 29). No fair value hedge adjustments were applied on loan capital of HK$1,746,101,000 as of 31 December 2022.

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 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 Credit 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.

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 and corporate top tier segments only.

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 has not had a significant changes in credit risk ("SICR") since initial recognition or that has 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.

Measuring ECL in accordance with HKFRS 9 requires consideration of 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 the 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):

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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining definition of default and credit-impaired assets (Continued)

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.

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").

- 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.

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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

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.

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 analyzed 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Incorporating forward-looking information into the ECL models (Continued)

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 three macroeconomic scenarios, namely the Good scenario, the Base scenario and the Bad scenario at the end of 2022.

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.

The removal of COVID-19 Scenario

The COVID-19 scenario was incorporated in 2020 and 2021 in order to accommodate the possible down turn economic environment due to the uncertainty of COVID-19. From late 2022, a progressive opening of borders to tourists from Mainland China provides much-needed support for retail and hospitality, causing business sentiment and consumer confidence to rebound. As COVID-19 measures lift, Hong Kong benefits from the recovering global economy and restoring its attractiveness to the rest of the world. On the other hand, the existing Hong Kong Bad scenario forecast should have incorporated the possible downturn impact from COVID-19, another separate COVID-19 scenario is no longer applicable. The Mainland China downgraded COVID-19 from the top class of infectious disease and shift from strict Zero-COVID policy to a more flexible management, the domestic economic activities have gradually resumed. The Mainland China scenario setting keeps unchanged in 2022.

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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions *(Continued)*

The trends of the economic variables are critical to ECL estimate, therefore, assumptions are presented individually for year of 2022, 2023 and 2024.

The most significant period-end assumptions used for ECL are set out below, in which annual average refers to the average of four quarter-end forecasts for the macroeconomic values.

	Scenario	2022 (Annual average)	2023 (Annual average)	2024 (Annual average)
Hong Kong Forecast Factors				
GDP YoY Change %	Base	**-3.25%**	3.27%	4.09%
	Good	**-3.25%**	7.33%	6.45%
	Bad	**-3.25%**	-6.67%	-1.28%
Unemployment rate	Base	**4.35%**	4.02%	3.96%
	Good	**4.35%**	3.40%	3.17%
	Bad	**4.35%**	5.68%	6.11%
Property price QoQ Change %	Base	**-1.80%**	-0.87%	0.18%
	Good	**-1.80%**	0.56%	1.31%
	Bad	**-1.80%**	-3.46%	-1.82%
Mainland China Forecast Factors				
GDP QoQ Change %	Base	**1.11%**	0.97%	1.49%
	Good	**1.11%**	2.03%	1.75%
	Bad	**1.11%**	-1.59%	0.71%
Unemployment rate	Base	**4.35%**	4.08%	3.99%
	Good	**4.35%**	3.72%	3.39%
	Bad	**4.35%**	4.84%	5.50%

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

As of 31 December 2022, the ECL estimate of Stage 1 and Stage 2 was HK$977 million (2021: HK$905 million) with the probability weighting assigned as shown in the table below.

	Scenario	2021 Weighting	2022 Weighting
Hong Kong portfolio Scenario Weighting	Base	50%	**75%**
	Good	5%	**5%**
	Bad	20%	**20%**
	COVID-19	25%	**N/A**
Mainland China Portfolio Scenario Weighting	Base	75%	**75%**
	Good	5%	**5%**
	Bad	20%	**20%**

- By assuming 5% scenario weight shift between Base scenario and Bad scenario, there would be an increase/decrease in expected credit loss by approximately HK$20.2 million as of 31 December 2022 (2021: HK$19.5 million).

As of 31 December 2022, the most significant assumptions used for the ECL estimate were set out below:

	Scenario	Average (2022–2024)
Hong Kong Forecast Factor		
GDP YoY Change %	Base	1.37%
	Good	3.51%
	Bad	-3.73%
Mainland China Forecast Factor		
GDP QoQ Change %	Base	1.19%
	Good	1.63%
	Bad	-0.07%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

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.

Management judgment and overlay

As of 31 December 2022, the Group makes a post-model overlay for its Mainland China portfolio to factor in deterioration in the loan portfolio's credit quality and the model does not incorporate latest default experience.

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

	2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK$'000		HK$'000	HK$'000
Credit rating				
Pass	156,659,000	3,755,194	–	160,414,194
Special mention	–	1,811,375	27,853	1,839,228
Substandard	–	–	3,590,641	3,590,641
Doubtful	–	–	848,135	848,135
Loss	–	–	11,935	11,935
Gross carrying amount at 31 December	156,659,000	5,566,569	4,478,564	166,704,133
Loss allowance	509,440	210,812	2,068,076	2,788,328
Carrying amount at 31 December	156,149,560	5,355,757	2,410,488	163,915,805

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK$'000	HK$'000	HK$'000	HK$'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

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the consolidated statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2022, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$66,319,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

	2022			
	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	9,175,481	–	–	9,175,481
Aa1 to Aa3	8,372,707	–	–	8,372,707
A1 to A3	33,438,116	–	–	33,438,116
Lower than A3	11,576,289	13,481	–	11,589,770
Unrated	1,066,256	–	–	1,066,256
Gross carrying amount at 31 December	63,628,849	13,481	–	63,642,330
Loss allowance				
— for debt securities at amortised cost	19,327	–	–	19,327
— for debt securities at FVOCI	85,608	1,130	–	86,738
Carrying amount at 31 December	63,609,522	13,481	–	63,623,003

	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	11,676,759	–	–	11,676,759
A1 to A3	25,240,083	–	–	25,240,083
Lower than A3	13,411,428	–	–	13,411,428
Unrated	2,915,421	346,910	–	3,262,331
Gross carrying amount at 31 December	55,208,656	346,910	–	55,555,566
Loss allowance				
— for debt securities at amortised cost	9,335	–	–	9,335
— for debt securities at FVOCI	103,060	13,832	–	116,892
Carrying amount at 31 December	55,199,321	346,910	–	55,546,231

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

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

	2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Credit rating				
Pass	11,261,539	249,176	–	11,510,715
Special mention	–	58,000	–	58,000
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Gross carrying amount at 31 December	11,261,539	307,176	–	11,568,715
Loss allowance	32,962	5,890	–	38,852
Carrying amount at 31 December	11,228,577	301,286	–	11,529,863

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	HK$'000	HK$'000	HK$'000	HK$'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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Other financial assets

Other financial assets mainly include short-term funds, placements with banks and other receivables. The Group held, short-term funds and placements with banks of HK$39,763,301,000 as of 31 December 2022 (2021: HK$32,114,477,000), 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.

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

	2022 HK$'000	2021 HK$'000
Financial assets at fair value through profit or loss		
– Debt securities	**114,448**	126,862
– Other securities	**1,801,558**	615,157
– Derivatives	**965,892**	1,339,175
Hedging derivatives	**644,494**	64,667

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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements (Continued)

Collateral held as securities 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. Derivatives under International Swap and Derivatives Association ("ISDA") credit support annex, such as Credit Support Annex ("CSA"), Credit Support Annex for Variation Margin ("VMCSA") and etc, are also collateralised.

As of 31 December 2022, 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$182,378,000 (2021: HK$1,588,914,000). The Group had not sold or re-pledged such collateral (2021: 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.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements (Continued)

Credit-impaired assets

	2022			
	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	30,286	(14,730)	15,556	17,248
Instalment loans	138,855	(2,460)	136,395	227,658
Term loans	431,869	(193,210)	238,659	86,199
Syndication loans	3,799,942	(1,830,765)	1,969,177	517,404
Trade finance	76,428	(26,490)	49,938	68,442
Personal loans and tax loans	921	(158)	763	1,711
Other	263	(263)	–	–
Total credit-impaired assets	4,478,564	(2,068,076)	2,410,488	918,662

	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

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

	2022							
	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	147,514,447	570,700	5,547,792	88,268	1,998,724	547,156	155,060,963	1,206,124
Transfers:								
Transfer from Stage 1 to Stage 2	(2,678,373)	(17,935)	2,678,373	195,726	–	–	–	177,791
Transfer from Stage 2 to Stage 1	1,853,688	3,512	(1,853,688)	(27,702)	–	–	–	(24,190)
Transfer to Stage 3	(2,587,012)	(14,458)	(1,025,673)	(27,105)	3,612,685	1,680,158	–	1,638,595
Transfer from Stage 3	19,719	8	–	–	(19,719)	(2,728)	–	(2,720)
Net new financial assets originated (asset derecognised)	25,295,115	154,485	(716,923)	(20,032)	(1,110,243)	(243,085)	23,467,949	(108,632)
Changes in PDs/LGDs/EADs	(9,288,479)	(202,801)	949,143	2,352	123,027	212,485	(8,216,309)	12,036
Changes in model assumption and methodologies	–	107,566	–	(572)	–	–	–	106,994
Amounts written off	–	–	–	–	(125,910)	(125,910)	(125,910)	(125,910)
Other movements	(3,470,105)	(25,318)	(12,455)	(123)	–	–	(3,482,560)	(25,441)
Balance at 31 December	156,659,000	575,759	5,566,569	210,812	4,478,564	2,068,076	166,704,133	2,854,647
								Total HK$'000
Change in ECL in income statement charge for the year								2,007,882
Add: Recoveries								(510)
Add: Others								22,117
Total ECL charge for the year								2,029,489

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2022, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$66,319,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Advances to customers *(Continued)*

	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)

Debt securities

	2022			
	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	112,395	13,832	–	126,227
Transfers:				
Transfer from Stage 1 to Stage 2	(9)	1,130	–	1,121
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	5,160	(13,832)	–	(8,672)
Changes in PDs/LGDs/EADs	(12,611)	–	–	(12,611)
Changes in model assumption and methodologies	–	–	–	–
Other movements	–	–	–	–
Balance at 31 December	104,935	1,130	–	106,065
Of which:				
For debt securities at amortised cost	19,327	–	–	19,327
For debt securities at FVOCI	85,608	1,130	–	86,738
	104,935	1,130	–	106,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Debt securities *(Continued)*

	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 (redemption) 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

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

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Loan commitments and financial guarantee contracts

	2022			
	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	23,426	3,070	–	26,496
Transfers:				
Transfer from Stage 1 to Stage 2	(548)	3,525	–	2,977
Transfer from Stage 2 to Stage 1	273	(1,585)	–	(1,312)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net changes in loan commitment and financial guarantee contracts	10,538	674	–	11,212
Changes in PDs/LGDs/EADs	4,137	206	–	4,343
Changes in model assumption and methodologies	(4,061)	–	–	(4,061)
Other movements	(803)	–	–	(803)
Balance at 31 December	32,962	5,890	–	38,852

	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 changes in 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Other financial assets

	2022			
	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	**93,698**	**–**	**–**	**93,698**
Transfers:				
Transfer from Stage 1 to Stage 2	**–**	**–**	**–**	**–**
Transfer from Stage 2 to Stage 1	**–**	**–**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Transfer from Stage 3	**–**	**–**	**–**	**–**
Net changes in short-term funds and placements with banks and other receivables	**8,333**	**–**	**–**	**8,333**
Changes in PDs/LGDs/EADs	**(693)**	**–**	**–**	**(693)**
Changes in model assumption and methodologies	**(50,365)**	**–**	**–**	**(50,365)**
Other movements	**(6,241)**	**–**	**–**	**(6,241)**
Balance at 31 December	**44,732**	**–**	**–**	**44,732**

	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 changes in short-term funds and placements with banks and other receivables	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

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 2022				
	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	5,262,351	21,174	–	2,627,571	–
– Property investment	6,652,635	10,027	–	6,327,618	15,788
– Financial concerns	13,022,464	1,736	–	811,682	–
– Stockbrokers	1,754,576	246	–	763,605	–
– Wholesale and retail trade	4,472,136	25,030	47,611	2,231,738	90,798
– Manufacturing	2,846,686	9,830	–	808,575	–
– Transport and transport equipment	3,877,866	11,398	6,687	380,768	7,449
– Recreational activities	343	–	–	343	–
– Information technology	341,004	2,401	–	41,000	–
– Others *(Note 2)*	10,465,343	35,777	83,431	4,707,458	622,822
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	329,299	14	–	329,299	863
– Loans for the purchase of other residential properties	7,474,832	336	2,071	7,474,832	26,461
– Credit card advances	58,433	311	400	–	400
– Others *(Note 3)*	5,058,674	3,577	2,599	3,164,282	20,222
	61,616,642	121,857	142,799	29,668,771	784,803
Trade finance	2,675,089	13,894	26,490	184,894	76,428
Loans for use outside Hong Kong	102,412,402	650,820	1,898,787	23,810,851	3,617,333
	166,704,133	786,571	2,068,076	53,664,516	4,478,564

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2022, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$66,319,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

	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

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.

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 2022 was HK$125,910,000 (2021: HK$419,069,000).

The Group still seeks to recover amounts it is legally owed in full, but which have been fully 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 of 31 December 2022 was HK$121,417,000 (2021: HK$154,647,000).

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.

	2022 HK$'000	2021 HK$'000
Advance to customers		
Amortised cost before modification	1	89,118

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2022				
Short-term funds	4,574,726	26,068,240	3,427,264	34,070,230
Placements with banks	212,491	5,454,913	–	5,667,404
Derivative financial instruments	206,363	158,817	1,245,206	1,610,386
Financial assets at fair value through profit or loss	–	1,916,006	–	1,916,006
Financial assets measured at FVOCI	14,489,602	29,422,726	13,232,767	57,145,095
Financial assets measured at amortised cost	1,490,356	4,825,624	161,928	6,477,908
Advances and other accounts	100,366,835	68,454,817	1,545,865	170,367,517
	121,340,373	136,301,143	19,613,030	277,254,546
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

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.

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 2022						
Short-term funds	29,785,450	4,284,780	–	–	–	34,070,230
Placements with banks	5,667,404	–	–	–	–	5,667,404
Derivative financial instruments	596,962	–	–	1,013,424	–	1,610,386
Financial assets at fair value through profit or loss	1,916,006	–	–	–	–	1,916,006
Financial assets measured at FVOCI	9,493,836	26,247,178	–	21,404,081	–	57,145,095
Financial assets measured at amortised cost	264,073	430,863	–	5,782,972	–	6,477,908
Advances and other accounts	19,666,223	3,605,359	1,201,711	131,140,905	14,753,319	170,367,517
	67,389,954	34,568,180	1,201,711	159,341,382	14,753,319	277,254,546
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

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

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 2022				
Aaa	–	9,144,262	31,118	9,175,380
Aa1 to Aa3	–	8,203,795	168,804	8,372,599
A1 to A3	1,916,006	28,235,205	5,187,284	35,338,495
Lower than A3	–	10,520,139	1,066,140	11,586,279
Unrated	–	1,041,694	24,562	1,066,256
Total	1,916,006	57,145,095	6,477,908	65,539,009
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

Repossessed collateral

Repossessed assets held by the Group as of 31 December 2022 was HK$119,700,000 (2021: HK$77,960,000).

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

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 proprietary trading position, 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

One of the market risk measurement is value at risk ("VaR"), which is used to estimate potential losses on risk positions in the trading portfolio as a result of movements of various risk factors over a specified time horizon and to a given level of confidence. The Group has maintained a controllable of market risk exposure for both trading and customer order fulfillment managed by the Treasury and Markets Division within approved limits in day to day business.

The market risk positions are managed using risk limits approved by the Group and its delegated committees. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 of the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept at an acceptable level.

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

	HKD HK$'000	USD HK$'000	RMB HK$'000	Others HK$'000 *(Note)*	Total HK$'000
At 31 December 2022					
Assets					
Cash and short-term funds	13,992,606	3,215,168	8,776,572	8,717,855	34,702,201
Placements with banks	2,782,491	1,227,685	935,571	721,657	5,667,404
Derivative financial instruments	352,745	1,213,945	2,902	40,794	1,610,386
Financial assets at fair value through profit or loss	—	—	1,916,006	—	1,916,006
Financial assets measured at FVOCI	9,377,875	30,773,513	15,083,358	2,120,153	57,354,899
Financial assets measured at amortised cost	441,417	5,556,944	373,664	105,883	6,477,908
Advances and other accounts	91,399,286	21,490,744	56,767,447	710,040	170,367,517
Total financial assets	118,346,420	63,477,999	83,855,520	12,416,382	278,096,321
Liabilities					
Deposits and balances with banks	70,958	5,596,620	3,305,371	167,188	9,140,137
Financial assets sold under repurchase agreements	—	3,140,703	1,363,910	—	4,504,613
Deposits from customers	125,850,008	23,031,239	70,014,531	4,592,449	223,488,227
Derivative financial instruments	321,639	182,243	167	796,632	1,300,681
Certificates of deposit	—	—	—	—	—
Loan capital	—	1,746,101	—	—	1,746,101
Other financial liabilities	2,068,024	420,569	1,534,498	232,006	4,255,097
Total financial liabilities	128,310,629	34,117,475	76,218,477	5,788,275	244,434,856
Net position - total financial assets and liabilities	(9,964,209)	29,360,524	7,637,043	6,628,107	33,661,465

Note: Currencies included in "Others" mainly represented Pound Sterling, Australian dollars and Euro.

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 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 with 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.

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 (2021: ±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)				
2022				
Profit after tax	**55,207**	**(55,207)**	**(1,489)**	**1,489**
Other comprehensive income	**–**	**–**	**268,842**	**(268,842)**

	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	–	–	234,157	(234,157)

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 Executive Committee ("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 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.

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 impact. Thereby the Group measures the change in Economic Value of Equity ("△EVE") 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 to the Bank. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 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 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 estimation.

In the retail loan and term deposit products, the Group takes into accounts of early prepayment/withdrawal behaviour of its customers. The parameters are based on historical observations and statistical analyses. 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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

	Up to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2022						
Assets						
Cash and short-term funds	34,070,919	–	–	–	631,282	34,702,201
Placements with banks	5,359,248	308,156	–	–	–	5,667,404
Derivative financial instruments	388,598	358,559	739,086	124,102	41	1,610,386
Financial assets at fair value through profit or loss	–	–	–	114,448	1,801,558	1,916,006
Financial assets measured at FVOCI	16,172,173	16,201,332	22,712,754	2,058,836	209,804	57,354,899
Financial assets measured at amortized cost	878,164	3,225,148	2,372,596	2,000	–	6,477,908
Advances and other accounts	30,962,063	40,585,762	61,669,864	36,967,531	182,297	170,367,517
Total financial assets	87,831,165	60,678,957	87,494,300	39,266,917	2,824,982	278,096,321
Liabilities						
Deposits and balances with banks	8,395,591	744,546	–	–	–	9,140,137
Financial assets sold under repurchase agreements	4,504,613	–	–	–	–	4,504,613
Deposits from customers	168,053,051	45,982,028	9,453,148	–	–	223,488,227
Derivative financial instruments	702,480	284,287	294,507	19,407	–	1,300,681
Certificates of deposit	–	–	–	–	–	–
Loan capital	–	–	–	1,746,101	–	1,746,101
Other financial liabilities	2,656,111	857,784	182,675	47,582	510,945	4,255,097
Total financial liabilities	184,311,846	47,868,645	9,930,330	1,813,090	510,945	244,434,856
Net position - total financial assets and liabilities	(96,480,681)	12,810,312	77,563,970	37,453,827	2,314,037	33,661,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

	Up to 3 months HK$'000	3 to 12 months HK$'000	1 to 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 with 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)*

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:

	2022			
	HKD HK$'000	USD HK$'000	CNY HK$'000	EUR HK$'000
Size of interest rate parallel shocks (bps)	200	200	250	200
Impact on earnings over the next 12 months (parallel up)	(871,000)	36,000	117,000	1,000
Impact on EVE (parallel up)	–	–	1,433,000	1,000

	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)	(767,000)	23,000	62,000	2,000
Impact on EVE (parallel up)	–	–	1,027,000	6,000

Note: Major currencies of the Group for 2022 are HKD, USD, Chinese Yuan Reminbi ("CNY") and Euro ("EUR"), whereas major currencies of the Group for 2021 are HKD, USD, CNY and Offshore Reminbi ("CNH"). 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 △EVE;
- 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 recognised on the Group's consolidated statement of financial position.

	2022		2021	
	Non-derivative financial assets - carrying amount	Derivatives nominal amount	Non-derivative financial assets - carrying amount	Derivatives nominal amount
USD 3-month LIBOR	835,872	14,015,202	680,652	15,546,729
USD 6-month LIBOR	—	976,212	—	974,588
GBP 3-month LIBOR	—	—	158,028	—
	835,872	14,991,414	838,680	16,521,317

The above table represents non-derivative financial assets on the basis of their gross carrying amount excluding the allowance for expected credit losses. Majority of these financial instruments have already been negotiated with counterparties and are ready for transition to alternative reference rates ("ARRs"). There were no outstanding non-derivative financial liabilities that are required but have yet to transition to alternative benchmark rates as of 31 December 2022 and 31 December 2021.

Price risk

The Group is exposed to price risk arising from the investments in listed 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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Price risk (Continued)

Price sensitivity

	2022		2021	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Profit after tax	–	–	–	–
Other comprehensive income	3,350	(3,350)	3,412	(3,412)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk *(Continued)*

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 at least annually. Key features of liquidity position and management strategies, risk appetite as well as, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The Board has the ultimate responsibility for liquidity risk management. The 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/intragroup 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.

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.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk *(Continued)*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. They 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 of the end of the reporting period as stated in their contracts. The maturity dates are based on the agreed repayment dates.

	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 2022								
Deposits and balances with banks	208,711	7,335,587	892,450	745,304	–	–	–	9,182,052
Financial assets sold under repurchase agreement	–	2,798,838	1,713,979	–	–	–	–	4,512,817
Deposits from customers	76,293,578	41,106,210	52,302,182	46,205,158	9,455,558	–	–	225,362,686
Certificate of deposits	–	–	–	–	–	–	–	–
Loan capital	–	–	–	85,719	342,877	2,177,969	–	2,606,565
Other financial liabilities	663,528	516,080	1,639,216	924,500	261,499	48,938	225,154	4,278,915
Total undiscounted financial liabilities	77,165,817	51,756,715	56,547,827	47,960,681	10,059,934	2,226,907	225,154	245,943,035
Liabilities adjusted with interest payable								
At 31 December 2021								
Deposits and balances with 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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. They have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that are settled on a net basis and the undiscounted gross inflows (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$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2022						
Derivatives settled net						
Interest rate contracts						
– Inflows	–	–	290,492	164,327	19,662	474,481
Derivatives settled gross						
Exchange rate contracts						
– Inflows	131,248,061	50,885,664	67,247,215	11,921,056	–	261,301,996
– Outflows	(131,550,223)	(51,292,350)	(66,887,412)	(11,905,849)	–	(261,635,834)
	(302,162)	(406,686)	359,803	15,207	–	(333,838)
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

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The contractual amounts of the Group's commitments and contingencies unrecorded in the consolidated statement 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 2022 HK$'000	As at 31 December 2021 HK$'000
Direct credit substitutes	1,065,398	2,141,968
Trade-related contingencies	258,215	263,208
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	7,699,937	7,299,789
	9,023,550	9,704,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 ("EWIs") of which excesses 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 ("repo") 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 formulated by 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 EWls 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 2022 HK$'000	At 31 December 2021 HK$'000
Tier 1	Debt Securities issued by sovereigns or central banks with 0% risk-weight	**16,186,042**	12,932,908
Tier 2	Other investment grade debt securities	**26,753,425**	27,301,025

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 ("SPM") 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, and approved by the RC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 and Bank Run. 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, 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 take charge during liquidity crisis to ensure business continuity of the Group.

The Contingency Funding Plan is 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 assets and liabilities shown on the consolidated statement 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 2022								
Assets								
Cash and short-term funds	9,713,680	24,541,806	446,715	–	–	–	–	34,702,201
Placements with banks	–	–	5,359,248	308,156	–	–	–	5,667,404
Derivative financial instruments	2,051	211,467	175,121	358,559	739,086	124,102	–	1,610,386
Financial assets at fair value through profit or loss	–	–	–	1,127,050	338,531	114,448	335,977	1,916,006
Financial assets measured at FVOCI	–	10,968,737	5,203,436	16,201,332	22,712,754	2,058,836	209,804	57,354,899
Financial assets measured at amortised cost	–	253,194	624,970	3,225,148	2,372,596	2,000	–	6,477,908
Advances and other accounts	5,393,772	8,448,239	17,219,629	40,586,655	61,669,864	36,967,531	81,827	170,367,517
Total financial assets	15,109,503	44,423,443	29,029,119	61,806,900	87,832,831	39,266,917	627,608	278,096,321
Non-financial assets	–	–	–	–	–	–	2,670,344	2,670,344
Total assets	15,109,503	44,423,443	29,029,119	61,806,900	87,832,831	39,266,917	3,297,952	280,766,665
Liabilities								
Deposits and balances with banks	208,711	7,294,435	892,445	744,546	–	–	–	9,140,137
Financial assets sold under repurchase agreements	–	2,798,017	1,706,596	–	–	–	–	4,504,613
Deposits from customers	76,293,578	40,824,094	50,935,379	45,982,028	9,453,148	–	–	223,488,227
Derivative financial instruments	–	506,293	196,187	284,287	294,507	19,407	–	1,300,681
Certificates of deposit	–	–	–	–	–	–	–	–
Loan capital	–	–	–	–	–	1,746,101	–	1,746,101
Lease liabilities	–	14,321	28,842	133,649	192,714	47,581	–	417,107
Other financial liabilities	663,528	500,763	1,608,686	784,294	55,564	1	225,154	3,837,990
Total financial liabilities	77,165,817	51,937,923	55,368,135	47,928,804	9,995,933	1,813,090	225,154	244,434,856
Non-financial liabilities	–	–	–	–	–	–	389,174	389,174
Total liabilities	77,165,817	51,937,923	55,368,135	47,928,804	9,995,933	1,813,090	614,328	244,824,030
Net position - total financial assets and liabilities	(62,056,314)	(7,514,480)	(26,339,016)	13,878,096	77,836,898	37,453,827	402,454	33,661,465
Of which debt securities included in:								
FVOCI	–	10,968,737	5,203,436	16,201,332	22,712,754	2,058,836	–	57,145,095
Amortised cost	–	253,194	624,970	3,225,148	2,372,596	2,000	–	6,477,908
	–	11,221,931	5,828,406	19,426,480	25,085,350	2,060,836	–	63,623,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 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
Non-financial assets	–	–	–	–	–	–	2,796,956	2,796,956
Total assets	21,193,648	34,681,051	24,330,781	42,569,246	89,059,576	38,835,703	4,577,553	255,247,558
Liabilities								
Deposits and balances with 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
Non-financial liabilities	–	–	–	–	–	–	262,586	262,586
Total liabilities	80,020,223	48,815,584	49,896,522	22,925,067	14,574,182	3,359,667	1,060,546	220,651,791
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

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	
	2022 HK$'000	**2021 HK$'000**	**2022 HK$'000**	**2021 HK$'000**
Financial assets				
– measured at amortised cost	**6,477,908**	3,117,530	**6,448,099**	3,145,066
Financial liabilities				
– Loan capital	**1,746,101**	3,009,489	**1,746,101**	2,982,892

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 2022				
Financial assets measured at amortised cost	**6,448,099**	**–**	**–**	**6,448,099**
Loan capital	**–**	**1,746,101**	**–**	**1,746,101**
At 31 December 2021				
Financial assets measured at amortised cost	3,145,066	–	–	3,145,066
Loan capital	–	2,982,892	–	2,982,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 equity securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair value of unlisted equity securities are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) enterprise multiples of the comparables; or (iii) dividend discount model calculation of the underlying equity investments.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. There were no changes in the Group's valuation techniques during the year.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

The following tables give information about the fair value hierarchy of the Group's financial assets and financial liabilities at the end of each reporting periods.

	Fair value hierarchy			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2022				
Financial assets measured at fair value through profit or loss				
Debt securities	114,448	–	–	114,448
Other securities	–	1,801,558	–	1,801,558
Financial assets measured at FVOCI				
Equity securities	33,501	–	176,303	209,804
Debt securities	54,844,093	2,301,002	–	57,145,095
Trade bills	–	7,982,708	–	7,982,708
Derivative financial assets not used for hedging	–	965,892	–	965,892
Derivative financial assets used for hedging	–	644,494	–	644,494
Derivative financial liabilities not used for hedging	–	(1,257,609)	–	(1,257,609)
Derivative financial liabilities used for hedging	–	(43,072)	–	(43,072)
Total	54,992,042	12,394,973	176,303	67,563,318
At 31 December 2021				
Financial assets measured at fair value through profit or loss				
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

There were no transfers between Levels 1, 2 and 3 during 2022 and 2021.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT 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 2021	41,680
Exchange difference	974
Balance at 31 December 2021 and 1 January 2022	42,654
Disposal	**(277)**
Total gain or loss recognised in other comprehensive income	
– fair value gain	**136,473**
Exchange difference	**(2,547)**
Balance at 31 December 2022	**176,303**

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.06% (2021: 0.02%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments.

During the year, management has revisited the unobservable inputs used in determining the fair value of Level 3 financial assets measured at FVOCI. The significant unobservable inputs and their range applied in the fair values measurement of the Group's Level 3 financial assets measured at FVOCI include price/earnings ratios of the appropriate comparables of 3.48x – 14.79x, price/book values ratios of the appropriate comparables of 0.42x – 4.33x, enterprise multiples of appropriate comparables of 4.13x – 7.53x, liquidity discount of 30% and dividend terminal growth rate of 2%. The fair value is positively correlated to the price/earnings ratios, price/book values ratios and enterprise multiples of appropriate comparables and dividend terminal growth rate used in the dividend discount model, and is negatively correlated to the liquidity discount used in the average of price/earnings ratios, price/book values ratios and enterprise multiples of comparables.

Had the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (2021: 5%), the Group's other comprehensive income would have increased by HK$2,916,000 and decreased by HK$2,964,000 respectively (2021: increased by HK$3,309,000 and decreased by HK$3,283,000, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 consolidated statement of financial position.

The Group entered into 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 consolidated statement 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.

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 in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not offset in the consolidated statement of financial position: Cash collateral received HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2022						
Derivative financial instruments	1,567,932	–	1,567,932	(774,341)	(364,451)	429,140
Reverse repos	169,215	–	169,215	(169,215)	–	–
Amounts due from HKSCC and brokerage clients	335,646	(139,902)	195,744	–	–	195,744
Total	2,072,793	(139,902)	1,932,891	(943,556)	(364,451)	624,884

Types of financial liabilities	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 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	Related amounts not offset in the consolidated statement of financial position: Cash collateral pledged HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2022						
Derivative financial instruments	1,248,743	–	1,248,743	(774,341)	(228,244)	246,158
Financial assets sold under repurchase agreements	3,659,629	–	3,659,629	(3,659,629)	–	–
Amounts due to HKSCC and brokerage clients	260,044	(139,902)	120,142	–	–	120,142
Total	5,168,416	(139,902)	5,028,514	(4,433,970)	(228,244)	366,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 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 collateral received HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2021						
Derivative financial instruments	1,064,770	–	1,064,770	(645,086)	(130,931)	288,753
Reverse repos	1,547,259	–	1,547,259	(1,547,259)	–	–
Amounts due from HKSCC and brokerage clients	425,197	(184,306)	240,891	–	–	240,891
Total	3,037,226	(184,306)	2,852,920	(2,192,345)	(130,931)	529,644

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 collateral pledged HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2021						
Derivative financial instruments	1,593,373	–	1,593,373	(645,086)	(847,011)	101,276
Financial assets sold under repurchase agreements	–	–	–	–	–	–
Amounts due to HKSCC and brokerage clients	300,029	(184,306)	115,723	–	–	115,723
Total	1,893,402	(184,306)	1,709,096	(645,086)	(847,011)	216,999

Note: The cash collateral received/pledged as of 31 December 2022 and 31 December 2021 represent its 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 consolidated statement of financial position that are disclosed in the above tables are measured on the following basis:

- derivative financial instruments – fair value;
- reverse repos – amortised cost;
- financial assets sold under repurchase agreements – 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.

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	2022 HK$'000	2021 HK$'000
Derivative financial instruments as stated above	**1,567,932**	1,064,770
Derivative financial instruments not in scope of offsetting disclosures	**42,454**	339,072
Total derivative financial instruments stated in note 18	**1,610,386**	1,403,842
Reverse repos as stated above	**169,215**	1,547,259
Total reverse repos stated in note 21	**169,215**	1,547,259
Amount due from HKSCC and brokerage clients as stated above	**195,744**	240,891
Other accounts not in scope of offsetting disclosures	**4,667,246**	5,343,765
Total other accounts stated in note 21	**4,862,990**	5,584,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2022 HK$'000	2021 HK$'000
Derivative financial instruments as stated above	**1,248,743**	1,593,373
Derivative financial instruments not in scope of offsetting disclosures	**51,938**	568,556
Total derivative financial instruments stated in note 18	**1,300,681**	2,161,929
Financial assets sold under repurchase agreements as stated above	**3,659,629**	—
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	**844,984**	2,036,268
Total financial assets sold under repurchase agreements stated in note 26	**4,504,613**	2,036,268
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	**120,142**	115,723
Other accounts and accruals not in scope of offsetting disclosures	**4,432,687**	2,709,640
Total other accounts and accruals as stated in note 35	**4,552,829**	2,825,363

9. NET INTEREST INCOME

	2022 HK$'000	2021 HK$'000
Interest income		
Short-term funds and placements with banks	**512,150**	277,451
Investments in securities	**1,392,441**	751,184
Loans and advances	**5,500,169**	4,379,340
	7,404,760	5,407,975
Interest expense		
Deposits and balances with banks	**(267,673)**	(169,901)
Deposits from customers	**(2,998,000)**	(1,811,008)
Financial assets sold under repurchase agreements	**(53,100)**	(43,894)
Certificates of deposit	**(4,908)**	(9,504)
Loan capital in issue	**(84,300)**	(72,289)
Lease liabilities	**(12,445)**	(15,656)
	(3,420,426)	(2,122,252)
Net interest income	**3,984,334**	3,285,723
Included within interest income		
Interest income on impaired loans and advances	**21,477**	10,063

Included within interest income and interest expense are HK$7,404,760,000 (2021: HK$5,407,975,000) and HK$3,420,426,000 (2021: HK$2,122,252,000) 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 investments in debt securities of HK$1,392,441,000 (2021: HK$751,184,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

10. NET FEE AND COMMISSION INCOME

	2022 HK$'000	2021 HK$'000
Fee and commission income		
Securities dealings	**106,755**	162,561
Loans, overdrafts and guarantees	**254,338**	199,486
Trade finance	**9,688**	12,351
Credit card services	**89,642**	103,940
Agency services	**76,326**	117,346
Others	**23,180**	28,938
Total fee and commission income	**559,929**	624,622
Less: Fee and commission expenses	**(81,964)**	(95,183)
Net fee and commission income	**477,965**	529,439
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	**282,933**	228,536
– Fee expenses	**(76,633)**	(88,901)
	206,300	139,635

11. NET INCOME FROM TRADING AND INVESTMENTS

	2022 HK$'000	2021 HK$'000
Foreign exchange gains	**334,652**	307,216
Net gains on financial instruments at fair value through profit or loss	**70,298**	32,013
Net (losses) gains on fair value hedge:		
– Net losses on hedged items attributable to the hedged risk	**(1,481,739)**	(968,822)
– Net gains on hedging instruments	**1,479,470**	968,415
Net gains on disposal of FVOCI debt securities	**63,757**	68,686
	466,438	407,508

"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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

12. OTHER OPERATING INCOME

	2022 HK$'000	2021 HK$'000
Dividend income		
– Listed investments	2,018	6,521
– Unlisted investments	4,695	2,455
	6,713	8,976
Gross rents from investment properties	6,047	8,007
Less: Outgoings	(501)	(507)
Net rental income	5,546	7,500
Net gain on disposal of financial instruments measured at amortised cost	11,317	4
Safe deposit box rentals	57,178	58,037
Net insurance income *(Note)*	22,269	17,200
Other banking services income	71,577	80,593
Others	2,527	1,475
	177,127	173,785

Note: Details of net insurance income are as follows:

	2022 HK$'000	2021 HK$'000
Gross insurance premium income	41,301	39,953
Reinsurers' share of gross insurance premium income	(11,056)	(11,183)
	30,245	28,770
Decrease in gross outstanding claims	5,210	2,032
Gross claim paid	(12,195)	(18,801)
	(6,985)	(16,769)
Decrease in recoverable from reinsurance of outstanding claims	(3,952)	(217)
Reinsurance claims recoveries	847	2,947
	(3,105)	2,730
Net insurance commission income	2,114	2,469
Net insurance income	22,269	17,200

13. OPERATING EXPENSES

	2022 HK$'000	2021 HK$'000
Auditor's remuneration		
– Audit services	**6,361**	8,418
– Non-audit services *(Note 1)*	**6,580**	3,164
Total auditor's remuneration	**12,941**	11,582
Staff costs (including directors' emoluments)		
– Salaries and other costs	**1,147,471**	1,104,770
– Retirement benefits scheme contributions	**68,177**	64,736
– Equity settled share-based payment	**–**	(2,201)
– Government grant – Employment Support Scheme *(Note 2)*	**(4,480)**	–
– Capitalised to intangible assets	**(6)**	(23,788)
Total staff costs	**1,211,162**	1,143,517
Depreciation		
– Property and equipment	**89,185**	94,963
– Right-of-use assets	**205,141**	206,693
– Government grants *(Note 3)*	**–**	(6,175)
	294,326	295,481
Amortisation of intangible assets	**57,735**	47,203
Premises and equipment expenses, excluding depreciation		
– Government rent and rates for premises	**7,478**	8,469
– Expenses relating to short-term leases	**1,178**	2,461
– Expenses relating to leases of low-value assets	**75**	35
– Capitalised to intangible assets	**–**	(1,866)
– Others	**3,910**	10,271
	12,641	19,370
Other operating expenses	**383,807**	354,938
– Capitalised to intangible assets	**–**	(1,081)
	383,807	353,857
	1,972,612	1,871,010

Note 1: For the year ended 31 December 2022, amount included non-audit services fees of HK$4,895,000 in relation to the financial years in which the service provider had not yet become the statutory auditor of the Group.

Note 2: In 2022, 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 3: In 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2022 HK$'000	2021 HK$'000
Loans and advances to customers	**2,029,489**	745,603
Investments in securities	**(20,162)**	(14,065)
Loan commitments and financial guarantee	**13,159**	(4,862)
Other financial assets	**(42,725)**	65,936
	1,979,761	792,612

Other financial assets include short-term funds, placements with banks and other receivables.

15. TAXATION

	2022 HK$'000	2021 HK$'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	**23,315**	152,807
– Under provision in prior years	**152**	423
Overseas taxation		
– Current year	**92,824**	146,834
– Under provision in prior years	**801**	–
Deferred tax *(Note 32)*		
– Current year	**4,738**	(8,275)
	121,830	291,789

Hong Kong profits tax is calculated at 16.5% (2021: 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 in the consolidated income statement as follows:

	2022 HK$'000	2021 HK$'000
Profit before taxation	1,265,020	1,796,580
Tax at the domestic income tax rate of 16.5% (2021: 16.5%)	208,728	296,436
Tax effect of share of profits of associates	(18,590)	(10,709)
Tax effect of expenses not deductible for tax purpose	15,614	37,185
Tax effect of income not taxable	(80,212)	(22,905)
Adjustment in respect of distribution paid on additional equity instruments	(50,713)	(50,333)
Under provision in prior years	953	423
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	43,655	34,388
Others	2,395	7,304
Tax charge for the year	121,830	291,789
Effective tax rate	9.63%	16.24%

16. DIVIDENDS

	2022 HK$'000	2021 HK$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
Interim	100,000	107,015
Final	260,000	223,758
	360,000	330,773

Subsequent to the end of the reporting period, final dividend of HK$130,000,000, in respect of the current financial year (2021: HK$260,000,000) has been recommended by the Board.

At the Board meeting on 19 August 2022, the Board declared a total amount of interim dividend of HK$100,000,000 (2021: HK$107,015,000). The interim dividend was paid on 29 November 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

17. CASH AND SHORT-TERM FUNDS AND PLACEMENTS WITH BANKS

	2022 HK$'000	2021 HK$'000
Cash and balances with central bank and banks	**11,515,947**	17,312,228
Money at call and short notice	**23,186,254**	15,006,631
	34,702,201	32,318,859
Placements with banks		
– With original maturity within three months	**3,692,496**	68,344
– With original maturity over three months	**1,974,908**	457,283
	5,667,404	525,627

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with the People's Bank of China by the Mainland branches of HK$941,307,000 (2021: HK$1,443,420,000).

Placements with banks as of 31 December 2022 and 31 December 2021 are maturing between one and twelve months.

As of 31 December 2022, the gross carrying amount, including accrued interest, of placements with banks amounted to HK$5,775,657,000 (2021: HK$579,677,000).

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2022			2021		
	Notional	Fair value		Notional	Fair value	
	amount HK$'000	Assets HK$'000	Liabilities HK$'000	amount HK$'000	Assets HK$'000	Liabilities HK$'000
Derivatives held for trading						
– Foreign currency forward contracts and swaps	**270,669,430**	**615,376**	**945,177**	220,631,231	1,260,284	1,234,730
– Foreign currency options	**45,544,557**	**2,051**	**3,648**	3,906,627	1,954	1,904
– Interest rate swaps	**74,430,895**	**348,465**	**308,559**	21,559,825	76,912	66,640
– Futures	**1,561,940**	**–**	**225**	84,204	25	–
Derivatives designated as hedging instruments						
– Interest rate swaps	**17,689,359**	**644,494**	**43,072**	27,525,820	64,667	858,655
		1,610,386	**1,300,681**		1,403,842	2,161,929

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As of 31 December 2022, all foreign currency forward contracts have settlement dates within 3 years (2021: 4 years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 8 years (2021: within 8 years).

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2022			2021		
	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	316,213,987	125,758	558,755	224,537,858	375,899	680,112
Interest rate contracts	93,682,194	328,659	191,946	49,169,849	22,720	107,033
		454,417	750,701		398,619	787,145

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 consolidated statement of financial position at fair values.

With the implementation of standardised approach for counterparty credit risk under the Basel III framework, the replacement cost of the derivative financial instruments has taken into account the effect of bilateral nettling agreements.

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$15,213,395,000 (2021: HK$21,332,164,000) and HK$1,074,123,000 (2021: HK$1,166,346,000) as of 31 December 2022, 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 8 years (2021: 1 month to 9 years).

During the year ended 31 December 2022, 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$1,508,336,000 (2021: losses of HK$1,018,485,000) and gains in fair value of the interest rate swaps of HK$1,506,459,000 (2021: gains of HK$1,021,587,000) were included in the consolidated income statement.

FAIR VALUE HEDGE OF SUBORDINATED NOTE ISSUED

As of 31 December 2021, the Group designated an interest rate swap as fair value hedge of the interest rate movement of the US$383 million subordinated note issued (see note 29). 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. There was no fair value hedge of subordinated note issued as of 31 December 2022.

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$26,597,000 (2021: gains of HK$49,663,000) and losses in fair value of the interest rate swap of HK$26,988,000 (2021: losses of HK$53,172,000) 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
2022				
Equity securities:				
Listed in Hong Kong	–	31,652	–	31,652
Listed overseas	–	1,849	–	1,849
Unlisted	–	176,303	–	176,303
	–	209,804	–	209,804
Debt securities:				
Certificates of deposits	–	3,235,814	–	3,235,814
Other debt securities	114,448	53,909,281	6,477,908	60,501,637
	114,448	57,145,095	6,477,908	63,737,451
Other securities:				
Unlisted	1,801,558	–	–	1,801,558
	1,801,558	–	–	1,801,558
Total:				
Listed in Hong Kong	–	16,604,701	3,261,098	19,865,799
Listed overseas	114,448	26,000,104	3,009,199	29,123,751
Unlisted	1,801,558	14,750,094	207,611	16,759,263
	1,916,006	57,354,899	6,477,908	65,748,813

As of 31 December 2022, the gross carrying amount, including accrued interest, of investment in securities measured at amortised cost amounted to HK$6,515,659,000 (2021: HK$3,137,972,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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
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	–	3,000,399	–	3,000,399
Other debt securities	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	–	18,892,307	1,290,558	20,182,865
Listed overseas	126,862	18,157,029	1,612,334	19,896,225
Unlisted	615,157	15,462,878	214,638	16,292,673
	742,019	52,512,214	3,117,530	56,371,763

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 of 31 December 2022		Instruments disposed during the year ended 31 December 2022		
	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	176,303	4,695	1,891	1,614	—
– other	33,501	2,018	—	—	—
	209,804	6,713	1,891	1,614	—

	Instruments held as of 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	–	–	–

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 of 31 December 2022 and 31 December 2021 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2022

20. TRANSFER OF FINANCIAL ASSETS *(Continued)*

	2022 HK$'000	2021 HK$'000
Financial assets measured at FVOCI		
Carrying amount of transferred assets	**4,588,922**	2,048,303
Carrying amount of associated liabilities (Note 26)	**4,504,613**	2,036,268

21. ADVANCES AND OTHER ACCOUNTS

	2022 HK$'000	2021 HK$'000
Advances to customers		
Bills receivable	**381,905**	780,159
Trade bills measured at		
– amortised cost	**227,302**	330,302
– FVOCI	**7,982,708**	8,339,820
	8,210,010	8,670,122
Other advances to customers	**158,112,218**	145,610,682
	166,704,133	155,060,963
Interest receivable	**1,448,916**	843,757
Impairment allowances		
– Stage 1	**(509,440)**	(570,700)
– Stage 2	**(210,812)**	(88,268)
– Stage 3	**(2,068,076)**	(547,156)
	(2,788,328)	(1,206,124)
	165,364,721	154,698,596
Reverse repos *(Note 1)*	**169,215**	1,547,259
Other accounts		
– Deposit placed as mandatory reserve fund *(Note 2)*	**3,820,722**	3,749,852
– Initial and variation margin *(Note 3)*	**535,343**	668,349
– Others	**506,925**	1,166,455
	4,862,990	5,584,656
	170,396,926	161,830,511

Note 1: Details of collateral received and fair value of collateral accepted as securities for assets are set out in Note 7 to the consolidated financial statements.

Note 2: 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 3: Balance mainly represented deposits placed in banks as initial and variation margin for certain interest margin, foreign currency forward contracts and repurchase agreements.

As of 31 December 2022, the gross carrying amount, including accrued interest, of advances to customers amounted to HK$167,116,122,000 (2021: HK$155,316,380,000).

21. ADVANCES AND OTHER ACCOUNTS *(Continued)*

Details of the impaired loans are as follows:

	2022 HK$'000	2021 HK$'000
Gross impaired loans	**4,478,564**	1,998,724
Less: Impairment allowances under Stage 3	**(2,068,076)**	(547,156)
Net impaired loans	**2,410,488**	1,451,568
Gross impaired loans as a percentage of gross advances to customers	**2.69%**	1.29%
Market value of collateral pledged	**918,662**	1,501,523

Details of the non-performing loans are as follows:

	2022 HK$'000	2021 HK$'000
Gross non-performing loans *(Note)*	**4,450,711**	1,994,686
Less: Impairment allowances under Stage 3	**(2,068,076)**	(547,156)
Net non-performing loans	**2,382,635**	1,447,530
Gross non-performing loans as a percentage of gross advances to customers	**2.67%**	1.29%
Market value of collateral pledged	**855,849**	1,492,071

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's loan classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

22. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held bythe 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 securities 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

	2022 HK$'000	2021 HK$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	**404,193**	426,739

The directors consider the Group has significant influence over these entities.

As of 31 December 2022 and 31 December 2021, 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:

	2022 HK$'000	2021 HK$'000
Other comprehensive income	**(109,831)**	(9,275)
Profit after tax	**112,666**	64,901
Total comprehensive income	**2,835**	55,626

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

24. INVESTMENT PROPERTIES

	2022 HK$'000	2021 HK$'000
At 1 January	**325,938**	299,513
Transfer from land and buildings	**–**	17,503
Net (loss) income on fair value recognised in the profit or loss	**(610)**	6,834
Exchange adjustments	**(5,564)**	2,088
At 31 December	**319,764**	325,938

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 2022 and 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 of 31 December 2022 and 31 December 2021. There were no transfers into or out of Level 3 during the years ended 31 December 2022 and 2021.

The significant unobservable inputs and their range used for the fair value measurement of the Group's investment properties classified as Level 3 are market yield of 2.5%-2.6% (2021: 2.4%) and property unit selling rate of HK$2,976 - HK$44,126 per square feet (2021: HK$2,953 – HK$43,488 per square feet). The higher the property unit selling rate and the lower the market yield, the higher the fair value.

24. INVESTMENT PROPERTIES *(Continued)*

The carrying amount of investment properties of the Group comprises:

	2022 HK$'000	2021 HK$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	**169,670**	172,030
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**88,500**	86,750
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**61,594**	67,158
	319,764	325,938

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.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2022 HK$'000	2021 HK$'000
Within 1 year	**6,995**	5,333
After 1 year but within 2 years	**3,947**	4,473
After 2 years but within 5 years	**2,781**	1,444
Over 5 years	**633**	–
	14,356	11,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2022	345,020	113,025	1,000,467	986,002	2,444,514
Additions	–	22,855	129,510	94,908	247,273
Disposals	–	–	(159,038)	(53,789)	(212,827)
Exchange adjustments	–	(1,804)	(24,931)	(23,821)	(50,556)
At 31 December 2022	345,020	134,076	946,008	1,003,300	2,428,404
ACCUMULATED DEPRECIATION					
At 1 January 2022	114,498	44,062	488,702	705,357	1,352,619
Depreciation	7,832	3,164	205,141	78,189	294,326
Eliminated on disposals	–	–	(151,692)	(22,667)	(174,359)
Exchange adjustments	–	(266)	(11,734)	(14,864)	(26,864)
At 31 December 2022	122,330	46,960	530,417	746,015	1,445,722
CARRYING AMOUNTS					
At 31 December 2022	222,690	87,116	415,591	257,285	982,682
At 1 January 2022	230,522	68,963	511,765	280,645	1,091,895

25. PROPERTY AND EQUIPMENT *(Continued)*

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

25. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2022 HK$'000	2021 HK$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	**26,410**	27,550
Held on medium-term lease (10–50 years unexpired)	**195,564**	202,227
Leasehold land outside Hong Kong:		
Held on medium-term lease (10–50 years unexpired)	**716**	745
	222,690	230,522

The carrying amounts of buildings shown above comprise:

	2022 HK$'000	2021 HK$'000
Held in Hong Kong on long-term lease (over 50 years unexpired)	**4,263**	4,494
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**56,260**	58,609
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**26,593**	5,860
	87,116	68,963

For both years, the Group leases various offices and branches for its operations.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Lease contracts are entered into for fixed term of 2 to 6 years (2021: 2 to 6 years), but may have extension options of 1 to 5 years (2021: 2 to 5 years) for 6 lease contracts (2021: 7). Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

26. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2022 HK$'000	2021 HK$'000
Analysed by collateral type:		
Debt securities classified as FVOCI *(Note 20)*	**4,504,613**	2,036,268

As of 31 December 2022, the gross carrying amount, including accrued interest, of financial assets sold under repurchase agreements amounted to HK$4,519,150,000 (2021: HK$2,042,938,000).

27. DEPOSITS FROM CUSTOMERS AND DEPOSITS AND BALANCES WITH BANKS

	2022 HK$'000	2021 HK$'000
Deposits from customers		
– Demand deposits and current accounts	**16,938,227**	21,474,295
– Saving deposits	**50,899,450**	57,559,174
– Time, call and notice deposits	**155,650,550**	122,053,639
	223,488,227	201,087,108
Deposits and balances with banks	**9,140,137**	7,671,283

As of 31 December 2022, the gross carrying amount, including accrued interest, of deposits from customers and deposits and balances with banks amounted to HK$225,326,016,000 and HK$9,170,455,000 respectively (2021: HK$202,020,131,000 and HK$7,730,272,000 respectively).

28. CERTIFICATES OF DEPOSIT

	2022 HK$'000	2021 HK$'000
Certificates of deposit, measured at amortised cost	**–**	1,597,765

As of 31 December 2022, the gross carrying amount, including accrued interest, of certificates of deposit amounted to HK$Nil (2021: HK$1,597,765,000).

29. LOAN CAPITAL

	2022 HK$'000	2021 HK$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US$383 million fixed rate subordinated note due 2027 (*Notes (a) & (c)*)	**–**	3,009,489
Subordinated notes, at amortised cost without fair value hedge adjustments		
US$224 million fixed rate subordinated note due 2032 (*Notes (b) & (c)*)	**1,746,101**	–
	1,746,101	3,009,489

As of 31 December 2022, the gross carrying amount, including accrued interest, of loan capital amounted to HK$1,782,770,000 (2021: HK$3,070,782,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

29. LOAN CAPITAL *(Continued)*

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 "Existing Notes"). The Existing 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 Existing Notes were listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017 and were redeemed on 26 July 2022.

(b) This represented the subordinated notes qualifying as tier 2 capital under Basel III accord with face value of US$224,000,000 issued on 27 July 2022 (the "New Notes"). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 4.900% per annum, payable semi-annually for the first five years; the interest rate will be reset on 27 July 2027.

(c) The subordinated notes issued are not secured by any collateral.

ANALYSIS OF CHANGES IN FINANCING CASH FLOW OF LOAN CAPITAL DURING THE YEAR

	2022 HK$'000	2021 HK$'000
At 1 January	**3,009,489**	3,033,178
Changes from financing cash flows:		
Redemption of loan capital	**(3,004,065)**	–
Net proceeds from issue of loan capital	**1,758,400**	–
Interest paid on loan capital	**(81,503)**	(53,950)
	1,682,321	2,979,228
Exchange adjustments	**6,077**	17,255
Fair value hedge adjustments	**(26,597)**	(49,662)
Other changes		
Interest expense	**84,300**	72,289
Other non-cash movements	**–**	(9,621)
Total other changes	**84,300**	62,668
At 31 December	**1,746,101**	3,009,489

30. SHARE CAPITAL

	2022		2021	
	Number of shares	Share capital HK$'000	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	972,862,221	15,280,884	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	1,750,000	1	5,300,000
At 31 December	972,862,222	17,030,884	972,862,221	15,280,884

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 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.

On 28 June 2022, the Bank issued 1 ordinary share with nominal value of HK$1,750,000,000 to the immediate holding company of the Bank, as a result of capital injection. Such share is fully paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

31. ADDITIONAL EQUITY INSTRUMENTS

	2022 HK$'000	2021 HK$'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 consolidated statement 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:

	2022 HK$'000	2021 HK$'000
Deferred tax assets	**15,644**	72,198
Deferred tax liabilities	**(77,904)**	(176,339)
	(62,260)	(104,141)

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 retirement benefits HK$'000	Total HK$'000
At 1 January 2022	**(162,315)**	**127,567**	**(27,478)**	**(35,805)**	**(6,110)**	**(104,141)**
(Charge) credit to income statement for the year *(Note 15)*	**647**	**(5,385)**	**–**	**–**	**–**	**(4,738)**
Credit (charge) to other comprehensive income for the year	**–**	**(18,046)**	**–**	**62,388**	**–**	**44,342**
Exchange adjustments	**–**	**–**	**2,277**	**–**	**–**	**2,277**
At 31 December 2022	**(161,668)**	**104,136**	**(25,201)**	**26,583**	**(6,110)**	**(62,260)**
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)

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 of 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:

	2022 Number of award shares	2021 Number of award shares
Outstanding as of 1 January	–	1,355,931
Awarded during the year	–	555,685
Vested during the year	–	(336,126)
Forfeited during the year	–	(92,634)
Cancelled during the year	–	(1,482,856)
Outstanding as of 31 December	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2022	14,090	110,606	16,164	871,666	1,012,526
Addition through internal development	–	–	–	197	197
Exchange adjustment	–	–	(1,339)	(6,706)	(8,045)
At 31 December 2022	14,090	110,606	14,825	865,157	1,004,678
ACCUMULATED AMORTISATION					
At 1 January 2022	–	–	4,277	59,114	63,391
Amortisation	–	–	1,021	56,714	57,735
Exchange adjustment	–	–	(386)	(1,325)	(1,711)
At 31 December 2022	–	–	4,912	114,503	119,415
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2022	–	71,000	–	–	71,000
CARRYING AMOUNTS					
At 31 December 2022	14,090	39,606	9,913	750,654	814,263
At 1 January 2022	14,090	39,606	11,887	812,552	878,135
COST					
At 1 January 2021	14,090	110,606	15,655	788,990	929,341
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
CARRYING AMOUNTS					
At 31 December 2021	14,090	39,606	11,887	812,552	878,135
At 1 January 2021	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 2022, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and value in use of the acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. Value in use is derived by discounting the expected future cash flows at 12% discount rate (2021: 12%), with assumptions on an overall growth in gross written premium of 2% per annum during the first 5 years (2021: 2% per annum during the first 5 years) and terminal growth rate on overall net profit of 2% beyond year 6 (2021: 2% beyond year 6).

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2022 (2021: Nil), as their value in use exceeds the carrying amount.

The club membership represents the eligibility rights to certain clubs and have no foreseeable limit to the period over which the Group can use. As a result, the club membership are considered by the management of the Group as having indefinite useful lifes. The club membership will not be amortised until their useful life are determined to be finite. Instead, they will be tested for impairment annually. No impairment is considered necessary as of 31 December 2022 and 31 December 2021.

35. OTHER ACCOUNTS AND ACCRUALS

	2022 HK$'000	2021 HK$'000
Accrued interest	**2,396,219**	1,316,744
Lease liabilities (Note 1)	**417,107**	489,051
Others (Note 2)	**1,739,503**	1,019,568
	4,552,829	2,825,363

Note 1:

TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated statement of cash flows and consolidated income statement for leases comprises the following:

	2022 HK$'000	2021 HK$'000
Payment of lease liabilities:		
Principal	**178,721**	144,356
Interest	**12,445**	14,811
Expenses relating to short-term leases	**1,178**	2,461
Expenses relating to leases of low-value assets	**75**	35
	192,419	161,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

35. OTHER ACCOUNTS AND ACCRUALS *(Continued)*

Note 2:

Other accounts and accruals include insurance contract liabilities with details as follows:

	2022 HK$'000	2021 HK$'000
At 1 January	**104,210**	107,139
Benefit paid	**(12,915)**	(18,801)
Claims incurred and movement in liabilities	**5,934**	15,872
At 31 December	**97,229**	104,210

36. CONTINGENT LIABILITIES AND COMMITMENTS

	2022 HK$'000	2021 HK$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	**1,065,398**	2,141,968
Transaction-related contingencies	**2,545,165**	3,517,914
Trade-related contingencies	**258,215**	263,208
Forward asset purchases	**13,258**	33,940
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	**47,942,372**	46,469,868
With an original maturity of one year and under	**359,025**	2,621,791
With an original maturity of over one year	**7,340,912**	4,677,998
Lease commitments	**210**	1,753
	59,524,555	59,728,440

The credit risk-weighted amount of contingent liabilities and commitments is HK$5,816,374,000 (2021: HK$6,150,971,000).

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% (2021: 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:

	2022 HK$'000	2021 HK$'000
Within one year	**100**	1,504
In the second to fifth years, inclusive	**110**	249
	210	1,753

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:

	2022 HK$'000	2021 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	**13,258**	33,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 of 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 and included under advances and other accounts in the consolidated statement of financial position.

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 of 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 of 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 of 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 of 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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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	
	2022 HK$'000	2021 HK$'000	2022 HK$'000	2021 HK$'000
Ultimate holding company	**16**	28	**15,867**	26,616
Intermediate holding company	**99**	367	**6,412**	2,485
Fellow subsidiaries	**37,746**	61,773	**102,004**	135,370
Associates	**21,773**	54,448	**26,133**	20,545
Key management personnel *(Note 1)*	**652**	8,600	**651**	1,755

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK$34,474,000 (2021: HK$58,298,000).

During the year, the Group disposed loans and advances to a fellow subsidiary at carrying amount of HK$564,760,000.

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	
	2022 HK$'000	2021 HK$'000	2022 HK$'000	2021 HK$'000
Ultimate holding company	**–**	–	**–**	1,645,807
Intermediate holding company	**150,000**	–	**2,538,707**	1,151,617
Fellow subsidiaries	**2,399,597**	1,477,973	**9,670,588**	5,847,717
Associates	**–**	–	**210,646**	439,041
Key management personnel *(Note 1)*	**43,664**	680,101	**149,729**	475,435

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 of 31 December 2022, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK$233,414,418 (2021: HK$24,766,247) and did not hold financial assets at amortised cost issued by fellow subsidiaries (2021: Nil).

Amounts due from related parties are included under advances and other accounts in the consolidated statement of financial position.

Amounts due to related parties are included under deposits from customers in the consolidated statement 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:

	2022 HK$'000	2021 HK$'000
Short-term benefits	**230,118**	222,575
Post employment benefits	**17,739**	17,264
	247,857	239,839

The remuneration of directors and key management is reviewed by the Nomination and Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2022, the Group accrued a bonus for the Group's senior management and employees. The bonus pool was approved by the Nomination and Remuneration Committee on 13 March 2023. 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.

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 objectives 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 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.

Throughout the years ended 31 December 2022 and 2021, the Bank has complied with the capital requirements imported by the HKMA. Additional information is disclosed in the Bank's Regulatory Disclosure.

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

	2022 HK$'000	2021 HK$'000
Assets		
Cash and short-term funds	**34,694,699**	32,311,351
Placements with banks maturing between one to twelve months	**5,667,404**	525,627
Derivative financial instruments	**1,610,386**	1,403,842
Investments in securities	**65,698,322**	56,321,316
Advances and other accounts	**170,168,634**	161,551,122
Tax recoverables	**98,523**	2,004
Investments in subsidiaries	**250,984**	250,984
Amounts due from subsidiaries	**191,561**	200,118
Interests in associates	**20,000**	20,000
Investment properties	**258,170**	258,780
Property and equipment	**812,200**	910,452
Deferred tax assets	**15,644**	72,198
Intangible assets	**774,657**	838,528
Total assets	**280,261,184**	254,666,322
Liabilities		
Deposits and balances with banks	**9,140,137**	7,671,283
Financial assets sold under repurchase agreements	**4,504,613**	2,036,268
Deposits from customers	**223,595,017**	201,192,530
Amounts due to subsidiaries	**837,005**	721,494
Derivative financial instruments	**1,300,681**	2,161,929
Other accounts and accruals	**4,305,360**	2,578,422
Current tax liabilities	**13,538**	88,289
Certificates of deposit	**–**	1,597,765
Loan capital	**1,746,101**	3,009,489
Deferred tax liabilities	**55,949**	150,645
Total liabilities	**245,498,401**	221,208,114
Equity attributable to owners of the Bank		
Share capital	**17,030,884**	15,280,884
Additional equity instruments	**5,427,996**	5,427,996
Reserves *(Note (a))*	**12,303,903**	12,749,328
Total equity	**34,762,783**	33,458,208
Total liabilities and equity	**280,261,184**	254,666,322

Approved and authorised for issue by the Board of Directors on 6 April 2023 and signed on its behalf by:

Zhang Zhaoxing *Chairman*	**Zong Jianxin** *Executive Director, Deputy Chairman and Chief Executive*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2022	–	302,745	197,136	1,378,500	355,529	582,000	9,933,418	12,749,328
Profit for the year	–	–	–	–	–	–	987,835	987,835
Exchange differences arising on translation	–	–	–	–	(621,301)	–	–	(621,301)
Net gains on investments in equity instruments measured at FVOCI	–	128,676	–	–	–	–	–	128,676
Net gains on investments in debt instruments measured at FVOCI	–	(252,625)	–	–	–	–	–	(252,625)
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	–	(63,757)	–	–	–	–	–	(63,757)
Income tax effect relating to disposal of financial assets measured at FVOCI	–	10,519	–	–	–	–	–	10,519
Income tax effect relating to fair value change of financial assets measured at FVOCI	–	32,581	–	–	–	–	–	32,581
Other comprehensive income (net of tax)	–	(144,606)	–	–	(621,301)	–	–	(765,907)
Total comprehensive income for the year	–	(144,606)	–	–	(621,301)	–	987,835	221,928
Distribution payment for additional equity instruments	–	–	–	–	–	–	(307,353)	(307,353)
Interim dividend paid	–	–	–	–	–	–	(100,000)	(100,000)
Final dividend paid	–	–	–	–	–	–	(260,000)	(260,000)
Earmark of retained profits as regulatory reserve	–	–	–	–	–	32,000	(32,000)	–
At 31 December 2022	–	158,139	197,136	1,378,500	(265,772)	614,000	10,221,900	12,303,903

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 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 (net of tax)	–	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): (Continued)

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:

	2022 HK$'000	2021 HK$'000
Directors' fee	4,800	4,284
Salaries, bonuses, allowances and benefits in kind	18,273	19,036
Retirement benefits scheme contributions	1,401	1,349
	24,474	24,669

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.

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
2022	**1,887**	**50**	**3,610**
2021	2,369	1,887	3,679

As of 31 December 2022, the loans bear interest at rates ranging from 0% to prime rate plus 10% (2021: 0% to prime rate plus 10%). As of 31 December 2022, no loans to officers were secured (2021: loans to officers amounted to HK$1,847,000 was secured mainly by properties, securities and fixed deposits).

42. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As of 31 December 2022 and 31 December 2021, 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.

43. COMPARATIVES

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

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

(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 consolidated 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 2022

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. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the Asset and Liability Management Committee (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 credit, operational, liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management Committee (the "RMC") policies are monitored by the Finance & Capital Management Division, the Treasury and Markets, the Credit Risk Management Division, the Legal and Compliance Division, the Operational & IT Risk Management Department and the Market Risk Management Department, with the assistance of various qualitative and quantitative analyses. The Board level Risk Committee ("RC") exercises further oversight of the Bank's risk management.

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. Identification, assessment, mitigation, monitoring and reporting of operational risk are to be done for the Bank, through its operational risk event handling and reporting mechanism.

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 the Bank's key business functions continue and 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 events that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff, and proper and adequate communications and public relations efforts are required 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.

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2022 %	2021 %
Total capital ratio	17.62	19.17
Tier 1 capital ratio	16.02	16.80
Common Equity Tier 1 ("CET 1") capital ratio	13.40	13.93

	31 December 2022 %	31 December 2021 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.500	2.500
Countercyclical capital buffer ratio	0.586	0.616
	3.086	3.116

	2022 %	2021 %
Leverage ratio	11.41	12.01

	2022 %	2021 %
Average liquidity maintenance ratio for the year	51.61	45.60

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

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 (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 years ended 31 December 2022 and 2021 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2022		
	Advances overdue for over three months as of 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	**1,791,718**	**1,462,036**	**77,020**

	2021		
	Advances overdue for over three months as of 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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

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:

	2022				
	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	100,814,545	2,425,083	4,247,794	1,931,887	373,658
Mainland China	55,873,388	–	–	–	383,313
Macau	5,576,714	152,770	230,770	136,189	9,208
Others	4,439,486	–	–	–	20,392
	166,704,133	2,577,853	4,478,564	2,068,076	786,571

	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

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 2022				
			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	**3,183,168**	**6,035**	**11,354,769**	**27,705,545**	**42,249,517**
of which					
– Hong Kong	**2,150,557**	**5,660**	**9,095,130**	**11,819,074**	**23,070,421**
Developing Asia-Pacific	**12,479,732**	**18,958**	**18,191,259**	**7,185,451**	**37,875,400**
of which					
– Mainland China	**8,026,730**	**18,782**	**18,191,259**	**7,036,661**	**33,273,432**
Developed countries	**10,074,797**	**33,937**	**388,488**	**8,932,593**	**19,429,815**
of which					
– United States	**1,164,210**	**28,090**	**–**	**8,922,454**	**10,114,754**

	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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

9. CURRENCY RISK

The Group's foreign currency exposures arising from non-structural position which constitute 10% or more of the total net non-structural position in all foreign currencies are as follows:

	2022	
	USD	RMB
	HK$'000	HK$'000
Spot assets	**64,062,746**	**90,415,278**
Spot liabilities	**(40,727,960)**	**(86,088,068)**
Forward purchases	**118,637,177**	**17,965,699**
Forward sales	**(141,270,733)**	**(20,216,583)**
Net options position	**19,296**	**—**
Net long position	**720,526**	**2,076,326**

	2021	
	USD	RMB
	HK$'000	HK$'000
Spot assets	58,138,057	72,894,634
Spot liabilities	(34,528,929)	(75,082,884)
Forward purchases	96,457,945	20,517,155
Forward sales	(120,382,413)	(16,587,466)
Net options position	–	–
Net (short) long position	(315,340)	1,741,439

The net options position is calculated in the basis of the delta-weighted position of option contracts.

The Group's foreign currency exposures arising from structural position which constitute 10% or more of the total net structural position in all foreign currencies are as follows:

	2022		2021
	USD	RMB	RMB
	HK$'000	HK$'000	HK$'000
Net structural position	**459,778**	**4,042,453**	3,321,000

10. OVERDUE AND RESCHEDULED ASSETS

	2022		2021	
	Gross amount of advances HK$'000	Percentage to total advances %	Gross amount of advances HK$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	**1,732,319**	**1.0**	84,752	0.1
– 1 year or less but over 6 months	**754,849**	**0.5**	170,591	0.1
– Over 1 year	**90,685**	**0.1**	83,981	0.0
Total overdue advances	**2,577,853**	**1.6**	339,324	0.2
Rescheduled advances				
– 3 months or less	**26,496**	**0.0**	130,420	0.1
– Over 3 months	**94,921**	**0.1**	24,227	0.0
Total rescheduled advances	**121,417**	**0.1**	154,647	0.1
Impairment allowances under stage 3 made in respect of overdue loans and advances	**1,210,231**		170,813	
Covered portion of overdue loans and advances	**712,098**		136,107	
Uncovered portion of overdue loans and advances	**1,865,755**		203,217	
	2,577,853		339,324	
Market value of collateral held against covered portion of overdue loans and advances	**777,056**		160,226	

There were no advances to banks and other assets which were overdue for over three months as of 31 December 2022 and 31 December 2021, nor were there any rescheduled advances to banks and other financial institutions.

There are no overdue debt securities and trade bills as of 31 December 2022 and 31 December 2021.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

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 2022		
	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 andjoint ventures	46,521,952	1,365,848	47,887,800
2 Local government, local government-owned entities and their subsidiaries and JVs	17,824,980	1,455,950	19,280,930
3 Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	45,097,348	1,376,596	46,473,944
4 Other entities of central government not reported in item 1 above	5,974,977	236,043	6,211,020
5 Other entities of local government not reported in item 2 above	424,492	—	424,492
6 Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,655,249	519,153	13,174,402
7 Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	3,988,411	197,154	4,185,565
Total	132,487,409	5,150,744	137,638,153
Total assets after provision *(Note)*	278,826,204		
On-balance sheet exposures as percentage of total assets *(Note)*	47.52%		

11. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

		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%		

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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2022

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**	**2022 HK$'000**	**2021 HK$'000**	**2022 HK$'000**	**2021 HK$'000**
Chong Hing (Nominees) Limited	Provision of nominee services	**100**	100	**100**	100
Chong Hing Securities Limited	Stockbroking	**848,463**	847,497	**708,302**	660,707
Chong Hing Commodities and Futures Limited	Commodities and futures broking	**69,450**	69,143	**65,884**	66,586
Chong Hing Insurance Company Limited	Insurance underwriting	**436,097**	397,637	**321,578**	301,475
Chong Hing Insurance Brokers Limited	Insurance broking	**3,031**	5,622	**2,000**	4,334
Chong Hing (Management) Limited	Provision of management services	**78**	78	**78**	78

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 6 April 2023

		Telephone
HONG KONG MAIN BRANCH	Chong Hing Bank Centre, 24 Des Voeux Road Central	3768 6888
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 6 April 2023

		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
Ma On Shan	Shop 2701-14, L2, MOSTown, No 628 Sai Sha Road, 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
BEIJING BRANCH		
Beijing	Unit 1001, 1003, 1005, 1007, 1009, 1010, 1011, 1015, 1017 & 1019 of 10th Floor, No. 23 Financial Street, Xicheng District, Beijing, China	(86-10) 6314 5100
GUANGZHOU BRANCH		
Guangzhou	Room 102, Room 201, Room 301, Room 5001 & Room 5401, 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 6 April 2023

		Telephone
SHANGHAI BRANCH		
Shanghai	28th Floor, Yue Xiu Tower, No. 388 Fushan Road, Pudong, Shanghai, China	(86-21) 6085 3000
SHANTOU BRANCH		
Shantou	Room 601, 602, 603, 604, 605, 606 & 607, Tai An Tang Building, No. 18 Songshan Road South, 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 6 April 2023

		Telephone
Shunde	Unit 105-106, Block 8, Poly Zhongyue Garden Zone A, No. 6 Guotai South Road, Dehe Residents Committee, Daliang Street, Shunde District, Foshan, Guangdong Province, China	(86-757) 6352 2838

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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