

The Strengths of **One Group.**
The Power of **One Brand.**



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Corporate Information

BOARD OF DIRECTORS

Chairman

Dr KHOO Cheng Hoe Andrew

Executive Director

Mr WANG Ke (*Chief Executive Officer*)

Non-executive Director

Ms WONG Pik Kuen Helen

Independent Non-executive Directors

Mr CHIM Wai Kin

Ms CHONG Chuan Neo

Mr HUI Leung Wah

COMPANY SECRETARY

Ms LEUNG Hoi Yan Helena

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

REGISTERED OFFICE

OCBC Centre, 161 Queen's Road Central, Hong Kong

A SUBSIDIARY OF OVERSEA-CHINESE BANKING CORPORATION LIMITED

NOMINATION COMMITTEE

Dr KHOO Cheng Hoe Andrew

Ms CHONG Chuan Neo

Ms WONG Pik Kuen Helen

AUDIT COMMITTEE

Mr HUI Leung Wah

Mr CHIM Wai Kin

Dr KHOO Cheng Hoe Andrew

REMUNERATION COMMITTEE

Dr KHOO Cheng Hoe Andrew

Ms CHONG Chuan Neo

Ms WONG Pik Kuen Helen

RISK MANAGEMENT COMMITTEE

Mr CHIM Wai Kin

Ms CHONG Chuan Neo

Mr HUI Leung Wah

Report of the Directors

The Directors of OCBC Bank (Hong Kong) Limited (the “Bank”) present this report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2023.

PRINCIPAL PLACE OF BUSINESS

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at OCBC Centre, 161 Queen’s Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 17 and 31 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December, 2023 and the state of affairs of the Group and the Bank as at 31st December, 2023 are set out in the financial statements on pages 19 to 153.

During the financial year ended 31st December, 2023, the Board declared an interim dividend of HK\$1,270 million (2022: HK\$700 million) to the sole shareholder of the Bank. The Board recommended the payment of a final dividend of HK\$1,464 million (2022: HK\$960 million) which shall be subject to the sole shareholder’s approval at the 2024 annual general meeting.

BUSINESS REVIEW

No business review for 2023 is prepared as the Bank is exempted under section 388(3)(b) of the Hong Kong Companies Ordinance since it is a wholly owned subsidiary of Oversea-Chinese Banking Corporation Limited for the financial year ended 31st December, 2023.

RESERVES

Profit attributable to shareholder of HK\$3,038 million (2022: HK\$2,154 million) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 19 to the financial statements.

SHARE CAPITAL

During the year, the Bank did not issue any ordinary shares (2022: nil). Details of the share capital are set out in note 27 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made donations for charitable and community purposes amounting to approximately HK\$1.3 million (2022: HK\$1.8 million).

Report of the Directors

DIRECTORS

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

Chairman

Dr KHOO Cheng Hoe Andrew

Executive Directors

Mr WANG Ke (*Chief Executive Officer*) (*appointed on 15th December, 2023*)

Ms AU-YEUNG Lai Ling Ivy (*retired on 15th December, 2023*)

Non-executive Directors

Ms WONG Pik Kuen Helen

Mr Samuel Nag TSIEN (*resigned on 31st July, 2023*)

Independent Non-executive Directors

Mr CHIM Wai Kin

Ms CHONG Chuan Neo (*appointed on 31st July, 2023*)

Mr HUI Leung Wah (*appointed on 21st September, 2023*)

Mr OOI Sang Kuang (*resigned on 29th April, 2023*)

Mr SOON Tit Koon (*resigned on 30th September, 2023*)

The list of Directors of the Bank's subsidiaries is published on the website of the Bank (www.ocbc.com.hk).

In accordance with the Bank's Articles of Association, Mr WANG Ke and Mr CHIM Wai Kin will retire from office at the forthcoming Annual General Meeting ("AGM") and being eligible, have offered themselves for election/re-election. Other remaining Directors of the Bank will continue in office.

Certain directors of the Bank received remuneration from the holding company of the Bank, Oversea-Chinese Banking Corporation Limited ("OCBC"), and related corporations as directors or employees of those companies and were entitled to benefits under the OCBC Deferred Share Plan and/or OCBC Employee Share Purchase Plan (the "Share-Based Payment Schemes") administered by OCBC. During the year, Mr WANG Ke, Ms AU-YEUNG Lai Ling Ivy and Ms WONG Pik Kuen Helen were granted share awards under the Share-Based Payment Schemes for the prior performance year. Details of the Share-Based Payment Schemes are set out in note 34 of the financial statements. Apart from the above, at no time during the year was the Bank or any of its subsidiaries a party to any arrangements 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.

INDEMNITY OF DIRECTORS

The Bank's Articles of Association provide that the directors and officers are entitled to be indemnified out of the funds of the Bank against certain liabilities incurred by them, to the extent permitted by the Companies Ordinance.

Directors & Officers Liability Insurance has been arranged to indemnify the directors and officers of the Bank and its subsidiaries.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No contract of significance to which the Bank, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S SECURITIES

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the Bank's securities during the year.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 34 to the financial statements.

CORPORATE GOVERNANCE

The Bank's corporate governance practices are set out in the Corporate Governance Report.

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

The financial statements for the year ended 31st December, 2023 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

AUDITORS

The financial statements of the Bank for the year have been audited by PricewaterhouseCoopers. A resolution will be submitted at the forthcoming annual general meeting of the Bank to re-appoint PricewaterhouseCoopers as independent auditor of the Bank for the year 2024.

ACKNOWLEDGEMENTS

Several Directors stepped down from the Board in 2023. They are Mr OOI Sang Kuang, Mr Samuel Nag TSIEN, Mr SOON Tit Koon and Ms AU-YEUNG Lai Ling Ivy. We would like to record our sincere appreciation to them for their contributions and wish them well. During the year, we welcomed Ms CHONG Chuan Neo, Mr HUI Leung Wah and Mr WANG Ke as new Directors on the Board.

On behalf of the Board

KHOO Cheng Hoe Andrew

Chairman

12th April, 2024

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Bank has complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions (“CG-1”) issued by the Hong Kong Monetary Authority (“HKMA”) throughout the year ended 31st December, 2023.

BOARD OF DIRECTORS

Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises six members, of whom one is an Executive Director. Amongst the five Non-executive Directors, four are independent (including the Chairman). The independent element on the Board is strong to facilitate independent judgement. The Members of the Board are as follows:

Chairman

Dr KHOO Cheng Hoe Andrew

Executive Director

Mr WANG Ke (*Chief Executive Officer*) (*appointed on 15th December, 2023*)

Non-executive Director

Ms WONG Pik Kuen Helen

Independent Non-executive Directors

Mr CHIM Wai Kin

Ms CHONG Chuan Neo (*appointed on 31st July, 2023*)

Mr HUI Leung Wah (*appointed on 21st September, 2023*)

Ms WONG Pik Kuen Helen is a Director and the Group Chief Executive Officer of Oversea-Chinese Banking Corporation Limited (“OCBC”) and a director of Great Eastern Holdings Limited, a subsidiary of OCBC. Dr KHOO Cheng Hoe Andrew and Ms CHONG Chuan Neo are Non-executive and Independent directors of OCBC. Save as aforementioned, all Directors have no relationship (including financial, business, family or other material/relevant relationship(s)) with each other as at the date of this report.

Each Director possesses skills and experiences appropriate to the business of the Group. The Bank appointed four Independent Non-executive Directors representing more than one-third of the Board.

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Attendance records of the Directors at meetings of the Board ("BM"), Audit Committee ("ACM"), Risk Management Committee ("RMCM"), Remuneration Committee ("RCM") and Nomination Committee ("NCM") held in 2023 are as follows:

Name of Director	Number of meetings attended/held in 2023				
	BM	ACM	RMCM	RCM	NCM
Dr KHOO Cheng Hoe Andrew (Note 1)	4/4	4/4	3/3	1/1	2/2
Mr WANG Ke (Note 2)	N/A	N/A	N/A	N/A	N/A
Ms WONG Pik Kuen Helen	4/4	N/A	N/A	1/1	2/2
Mr CHIM Wai Kin	4/4	4/4	4/4	N/A	N/A
Ms CHONG Chuan Neo (Note 3)	1/1	N/A	1/1	N/A	1/1
Mr HUI Leung Wah (Note 3)	1/1	1/1	1/1	N/A	N/A
Ms AU-YEUNG Lai Ling Ivy (Note 4)	4/4	N/A	N/A	N/A	N/A
Mr Samuel Nag TSIEN (Note 4)	3/3	N/A	N/A	N/A	N/A
Mr OOI Sang Kuang (Note 5)	1/1	N/A	N/A	1/1	1/1
Mr SOON Tit Koon (Note 5)	3/3	3/3	3/3	N/A	N/A

Note 1: Dr KHOO Cheng Hoe Andrew ceased to be a member of RMCM during the year.

Note 2: Mr WANG Ke was appointed as director during the year.

Note 3: Ms CHONG Chuan Neo and Mr HUI Leung Wah were appointed as directors and Board Committee members during the year.

Note 4: Ms AU-YEUNG Lai Ling Ivy and Mr Samuel Nag TSIEN ceased to be directors during the year.

Note 5: Mr OOI Sang Kuang and Mr SOON Tit Koon ceased to be directors and Board Committee members during the year.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Bank has in place training and development arrangements for developing and updating the Directors' knowledge as necessary to enable them to perform their roles effectively.

During the year, all Directors of the Bank received briefings on economic updates, the Group's business, operations, risk management, climate & sustainability, corporate governance matters as well as rules and regulations applicable to the Group. The Directors also attended seminars on various relevant topics. All Directors have provided the Bank with their training records.

BOARD PERFORMANCE

In order to improve the performance of the Board, the Board conducts formal performance evaluation of the Board as a whole, of each Committee and of each Director on an annual basis. The 2023 evaluation results will be presented to the Board. Based on the results of the evaluation and comments received from individual directors, the Board will take appropriate follow up actions to further improve the performance of the Board.

Corporate Governance Report

BOARD DIVERSITY POLICY

The Bank has established a Board Diversity Policy (the “Policy”). The Policy sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

The Bank recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee is established with specific terms of reference. Its duties include making recommendations to the Board on the Bank’s remuneration system, policies, structure and practices as well as the remuneration packages of Senior Management and Key Personnel. In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Group’s business objectives, people strategies, performance, business and economic conditions, market practices and risk management factors. The remuneration policy is applicable to all staff of the Bank and its subsidiaries.

The terms of reference require that the Remuneration Committee shall comprise not less than three members and a majority of the committee, including the Chairman, shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Dr KHOO Cheng Hoe Andrew (Chairman), Ms CHONG Chuan Neo and Ms WONG Pik Kuen Helen.

Remuneration of Directors, Senior Management and Key Personnel

Pursuant to Supervisory Policy Manual CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

HK\$'000		Senior Management		Key Personnel	
		2023	2022	2023	2022
Fixed remuneration	Number of employees	35	27	3	3
	Total fixed remuneration	96,974	68,968	8,416	9,471
	– Cash (Non-deferred)	96,974	68,968	8,416	9,471
	– Share-based payment (Deferred)	–	–	–	–
Variable remuneration	Number of employees	35	25	3	3
	Total variable remuneration	68,330	54,970	3,680	4,620
	– Cash				
	Non-deferred	41,572	34,160	2,944	3,696
	Deferred	–	–	–	–
	– Share-based payment				
Non-deferred	–	–	–	–	
Deferred	26,758	20,810	736	924	
Total remuneration		165,304	123,938	12,096	14,091

Corporate Governance Report

Aggregate amount of deferred variable remuneration is set out below:

	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 and implicit adjustments	Total amount of deferred remuneration paid out and lapsed in the financial year	Total amount of deferred remuneration awarded in the financial year
Senior Management					
Cash	56,771	–	–	–	–
Share-based payment	–	–	–	(14,766)	25,548
Key Personnel					
Cash	–	–	–	–	–
Share-based payment	2,332	–	–	(691)	736
Total	59,103	–	–	(15,457)	26,284

The share-based payment representing the fair value of deferred shares will be granted to Senior Management and Key Personnel in 2024 as deferred variable incentive bonus for 2023. The deferred shares will be issued by the Bank's holding company, OCBC.

Details of Directors' emoluments are set out in note 9 to the financial statements.

Special Payments for the Financial Year

HK\$'000	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management						
2023	1	2,220	0	0	–	–
2022	1	1,324	0	0	–	–
Key Personnel						
2023	–	–	0	0	–	–
2022	–	–	–	–	–	–

The Bank's remuneration package consists of both fixed and variable remuneration. Fixed remuneration includes basic salary, allowances and pension contributions. Variable remuneration comprises cash payment and deferral in the form of deferred shares to align with the time horizon of risk. In general, the proportion of variable remuneration to total remuneration will increase in line with the seniority, responsibilities and performance of staff.

The Bank adopts a performance-driven approach to remuneration. Remuneration is linked to the overall performance of the Bank, performance of the relevant business units and performance of individual employees. Performance is based on pre-determined and assessable criteria, which includes both financial and non-financial factors. For business units, key financial measurements – adjusted as appropriate for the various types of risk – include earnings growth, loan growth, return on average shareholder's funds and impaired loans ratio. Risk and control indicators as well as audit findings and compliance issues are taken into account when assessing performance. Award of variable remuneration depends on fulfilment of such criteria.

The performance of personnel in risk control functions is measured independently of the business they oversee. Employees in these functions are assessed based on achievements related to their respective performance measures. Risk control personnel are also compensated independently of the performance of the business areas which they oversee.

For Senior Management, Key Personnel, Material Risk Takers (i.e., whose activities during the course of their employment could have a material impact on the Bank's risk profile and financial soundness) and employees with variable remuneration exceeding thresholds, a substantial proportion of their variable remuneration shall be deferred in the form of deferred shares in accordance with the Bank Group's policy. All awards of deferred shares are subject to cancellation and clawback if it is determined that they were granted on the basis of materially inaccurate financial statements and/or that the employee has engaged in conduct that results in financial loss, reputational harm, restatement of financial results and/or adverse changes to the Bank's risk profile/rating. For Material Risk Takers, clawback applies to both cash bonus and deferred shares.

Senior Management refers to Chief Executive Officer (and Alternate Chief Executive), Heads of Risk Control Functions and other senior executives who may also be defined as Material Risk Takers under the OCBC Bank Group's definition.

Key Personnel are selected managers as defined and reported to HKMA under section 72B of the Banking Ordinance whose action may have a material impact on the risk exposure of the Bank.

Nomination Committee

The Nomination Committee is established with specific terms of reference. Its duties include reviewing and making recommendations to the Board on appointment of Directors, Chairman of the Board, membership of Board Committees, Chief Executive Officer, Alternate Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Compliance and other officers who have responsibilities and functions similar to any of these officers.

The terms of reference require that the Nomination Committee shall comprise not less than three members and a majority of them, including the Chairman, shall be Independent Non-executive Directors. Currently, members of the Nomination Committee are Dr KHOO Cheng Hoe Andrew (Chairman), Ms CHONG Chuan Neo and Ms WONG Pik Kuen Helen.

Corporate Governance Report

Audit Committee

The Audit Committee is established with specific terms of reference. Its duties include reviewing the financial reporting process of the Group, approving the scope and frequency of audit, and evaluating the effectiveness of the system of internal controls, taking input from internal and external auditors, risk management and compliance functions. The Audit Committee shall report to the Board regularly on any significant matters that require Board attention.

The Audit Committee approves the audit charter of Internal Audit and ensures that processes are in place for recommendations raised in internal audit reports to be dealt with in a timely manner.

The Audit Committee reviews the external auditors' independence, objectivity and competency (in terms of their skills, knowledge, expertise and resources).

The terms of reference require that the Audit Committee shall have at least three Non-executive Directors as members, the majority of whom, including the Chairman, shall be independent. Currently, members of the Audit Committee comprise three independent Non-executive Directors, namely, Mr HUI Leung Wah (Chairman), Mr CHIM Wai Kin and Dr KHOO Cheng Hoe Andrew.

The Group's Whistleblowing Program provides a channel for employees and external parties to raise concerns relating to suspected fraud, misconduct or any other irregularities within the Bank. The Audit Committee will be updated on a regular basis on cases received (if any) from whistleblower(s) and appropriate action(s) taken. The whistleblower's interests will be safeguarded at all times, including the right to appeal to the Audit Committee if reprisals are taken against him/her.

Risk Management Committee

The Risk Management Committee, which supports the Board in performing its risk oversight responsibilities, comprises Mr CHIM Wai Kin (Chairman), Ms CHONG Chuan Neo and Mr HUI Leung Wah. All members have the relevant technical financial expertise in risk disciplines or businesses to discharge their responsibilities. Mr CHIM Wai Kin and Mr HUI Leung Wah also serve on the Audit Committee. The common membership helps to facilitate communication and foster the sharing of information and knowledge between the two Committees.

The Committee has written terms of reference that describes the responsibilities of its members.

The Committee reviews the overall risk management philosophy in line with the overall corporate strategy as set and approved by the Board. It oversees the establishment and operation of an independent risk management system for identifying, measuring, monitoring, controlling and reporting risk on an enterprise-wide basis. This includes ensuring the adequacy of risk management practices for material risks such as credit, liquidity, market, operational, information security and digital, conduct, money laundering and terrorism financing, legal, regulatory, reputational, strategic as well as environmental, social and governance ("ESG") risks.

The Committee reviews the scope, effectiveness and objectivity of the Risk Management Division. It ensures that the risk management function has appropriate independent reporting lines and is adequately resourced with experienced and qualified employees to monitor risk by the various risk categories. It approves the risk management frameworks, internal control systems and major policies, as well as reviews the risk appetite statement, risk disclosure policy and risk management principles for the approval of the Board. It also reviews the risk profile, risk tolerance level and risk strategy of the Bank for effective risk management, as well as the risk reports to monitor and control risk exposures. The Chief Risk Officer has direct reporting lines to the Committee and CEO.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

- review and approve the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors, the Chief Executive Officer and Alternate Chief Executives;
- review and monitor the Bank's compliance with legal and regulatory requirements; and
- establish, review and approve the code of conduct and compliance policies (if required).

DELEGATION BY THE BOARD

In addition to the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee described above, the Bank has also established other committees, such as the Management Executive Committee, Credit Risk Management Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information on these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to Senior Management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

Management Executive Committee

The Management Executive Committee (MEC) meets regularly to manage the affairs of the Group encompassing all aspects including strategic direction, business and operational strategies, internal controls, risk management, bank culture, sustainability, audit, operations, information technology, legal and compliance matters. The MEC reviews and endorses capital frameworks and policies to ensure proper capital resource management and allocation for the Group. The MEC comprises the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Consumer Financial Services, Head of Emerging Business, Head of Global Markets, Head of Human Resources and Head of Wholesale Banking.

Credit Risk Management Committee

The Credit Risk Management Committee, chaired by Chief Credit Officer (Wholesale Credit Risk Management), is the principal senior management body that supports and is accountable to the Risk Management Committee in managing the Group's credit risk including environmental, social and governance risk under responsible financing. The Credit Risk Management Committee oversees the execution of the Group's credit risk management framework and policies, to ensure that credit risk taking is aligned with the Group's risk appetite and business strategy. The Credit Risk Management Committee comprises the Chief Risk Officer, Head of Wholesale Credit Risk Management – Corporate Banking, Head of Wholesale Credit Risk Management – Emerging Business, Head of Consumer Credit Risk Management, Head of Risk Portfolio Management, Head of Consumer Financial Services, Head of Credit Assurance, Head of Emerging Business, and Head of Wholesale Banking.

Corporate Governance Report

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible to provide stewardship in managing the Group's balance sheet, focusing on liquidity management, interest rate management, market risk management, structural foreign exchange management and internal funds transfer pricing mechanism of the Group. The Asset and Liability Management Committee comprises the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Consumer Financial Services, Head of Emerging Business, Head of Global Markets, and Head of Wholesale Banking.

INTERNAL CONTROLS

The Board oversees the adequacy and effectiveness of the Bank's internal controls in safeguarding stakeholders' interests and the Bank's assets. Through regular reporting at RMC, the Board is kept informed by the Bank's Senior Management on the adequacy and effectiveness of the Bank's risk management and internal control systems. Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures.

Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place to identify, control and report on major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, liquidity, market, operational, information security and digital, ESG and climate as well as capital management, are included in note 33 to the financial statements.

A review of the effectiveness of the Group's internal control system covering key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review result is reported to the Audit Committee, Risk Management Committee and the Board.

Internal Audit plays an important role in the Group's internal control framework. It provides independent assurance on the effectiveness of the Group's internal control and compliance with policies and standards across all business and support units. Senior Management is required to provide Internal Audit with evidence to verify that it has acted fully on all the recommendations made by auditors and regulatory authorities. Internal Audit also provides advisory service to Senior Management on operational efficiency and risk management issues. The work of the Internal Audit function focuses on areas of higher risk to the Group as determined by a risk-based audit methodology. The Head of Internal Audit reports to the Audit Committee. The Audit Committee shall report to the Board regularly on any significant matters that require the Board's attention.

DIRECTORS' RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with the statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in note 5 to the financial statements.

12th April, 2024

Independent Auditor's Report



羅兵咸永道

To the Shareholder of OCBC Bank (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of OCBC Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 19 to 153, comprise:

- the consolidated statement of financial position as at 31st December, 2023;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2023, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises the information included in the corporate information, report of the directors, corporate governance report, unaudited supplementary financial information and list of branches, but does not include 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 DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 12th April, 2024

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2023	2022 (restated)
Interest income calculated using the effective interest method	5(a)	13,308	8,277
Other interest income	5(a)	1,873	577
Interest expense	5(b)	(8,605)	(3,525)
Net interest income		6,576	5,329
Fees and commission income		1,436	1,411
Fees and commission expense		(134)	(130)
Net fees and commission income	5(c)	1,302	1,281
Dividends	5(d)	28	19
Rental income	5(e)	3	3
Other income	5(f)	821	977
Other operating income		2,154	2,280
Operating income		8,730	7,609
Operating expenses	5(g)	(4,654)	(4,116)
Operating profit before expected credit losses		4,076	3,493
Change in expected credit losses and other credit impairment charges	14	(386)	(784)
Operating profit after expected credit losses		3,690	2,709
Share of net profit/(loss) of associated companies	18	28	(152)
Profit before taxation		3,718	2,557
Taxation	6(a)	(680)	(403)
Profit for the year attributable to equity shareholder of the Bank	7	3,038	2,154

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2023	2022 (restated)
Profit for the year		3,038	2,154
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Deficit on revaluation of bank premises	19	(99)	(26)
– Income tax related to the above	6(d)	(2)	(8)
– Share of surplus on revaluation of bank premises of associated companies	18	7	4
		(94)	(30)
– Equity securities measured at fair value through other comprehensive income			
– Fair value changes	35(a)(i)	(706)	111
– Deferred taxes	6(d)	41	(7)
		(665)	104
		(759)	74
Items that are or may be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		(189)	(911)
		(189)	(911)
– Debt securities measured at fair value through other comprehensive income			
– Fair value changes		530	(1,052)
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	(65)	(35)
– expected credit losses recognised		2	(3)
– Income tax related to the above	6(d)	(95)	181
– Share of fair value changes of debt securities held of associated companies	18	–	5
		372	(904)

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2023	2022 (restated)
- Cash flow hedging reserve			
- Fair value changes taken to equity		111	2
- Deferred taxes	6(d)	(18)	-
		93	2
- Unappropriated profits			
- Bank premises			
- Deferred taxes	6(d)	31	25
		307	(1,788)
Other comprehensive income for the year, net of tax		(452)	(1,714)
Total comprehensive income for the year attributable to equity shareholder of the Bank		2,586	440

Consolidated Statement of Financial Position

At 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2023	2022 (restated)
ASSETS			
Cash and balances with banks and central banks	10	13,007	10,645
Placements with banks, central banks and other financial institutions	11	2,568	3,903
Amounts due from ultimate holding company and fellow subsidiaries	32	23,086	18,324
Trading assets	12	12,301	9,821
Advances to customers and other accounts	13(a)	207,798	207,605
Financial assets measured at fair value through other comprehensive income	15	82,445	81,814
Debt securities measured at amortised cost	16	6,713	–
Investments in associated companies	18	635	641
Fixed assets	19		
– Investment properties		216	293
– Bank premises and equipment		4,989	5,093
Goodwill	20	1,306	1,306
Current tax recoverable	6(c)	41	4
Deferred tax assets	6(d)	144	106
Total assets		355,249	339,555
EQUITY AND LIABILITIES			
Deposits and balances of banks		11,935	7,412
Amounts due to ultimate holding company and fellow subsidiaries	32	11,656	13,050
Deposits from customers	22	263,002	247,210
Certificates of deposit and fixed rate note issued	23	7,049	11,611
Trading liabilities	24,29	9,408	8,685
Lease liabilities	21	63	90
Current tax payable	6(c)	237	395
Deferred tax liabilities	6(d)	510	449
Other accounts and provisions	25	5,039	4,515
Total liabilities		308,899	293,417
Share capital	27(a)	7,308	7,308
Reserves		36,042	35,830
Perpetual capital securities issued	27(b)	3,000	3,000
Total equity		46,350	46,138
Total equity and liabilities		355,249	339,555

KHOO Cheng Hoe Andrew
WANG Ke

Chairman
Executive Director and Chief Executive

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	2023								
	At 1st January	Effect of adopting HKFRS 17	Adjusted balance at 1 January	Transfer to/(from) reserve	Coupon of perpetual capital securities	Dividends declared or approved during the year	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	7,308	-	7,308	-	-	-	-	-	7,308
Capital reserve	478	-	478	106	-	-	-	-	584
Statutory reserve	430	-	430	-	-	-	-	-	430
General reserve	1,536	-	1,536	-	-	-	-	(189)	1,347
Bank premises revaluation reserve	3,075	-	3,075	(70)	-	-	-	(94)	2,911
Investment revaluation reserve (recycling)	(1,034)	282	(752)	-	-	-	-	372	(380)
Investment revaluation reserve (non-recycling)	2,368	12	2,380	-	-	-	-	(665)	1,715
Cash flow hedging reserve	-	-	-	-	-	-	-	93	93
Unappropriated profits	28,905	(222)	28,683	(36)	(144)	(2,230)	3,038	31	29,342
Perpetual capital securities	3,000	-	3,000	-	-	-	-	-	3,000
Total equity	46,066	72	46,138	-	(144)	(2,230)	3,038	(452)	46,350

	2022 (restated)								
	At 1st January	Effect of adopting HKFRS 17	Adjusted balance at 1 January	Transfer to/(from) reserve	Coupon of perpetual capital securities	Dividends declared or approved during the year	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	7,308	-	7,308	-	-	-	-	-	7,308
Capital reserve	483	-	483	(5)	-	-	-	-	478
Statutory reserve	430	-	430	-	-	-	-	-	430
General reserve	2,447	-	2,447	-	-	-	-	(911)	1,536
Bank premises revaluation reserve	3,169	-	3,169	(64)	-	-	-	(30)	3,075
Investment revaluation reserve (recycling)	151	1	152	-	-	-	-	(904)	(752)
Investment revaluation reserve (non-recycling)	2,276	-	2,276	-	-	-	-	104	2,380
Cash flow hedging reserve	(2)	-	(2)	-	-	-	-	2	-
Unappropriated profits	27,364	164	27,528	69	(143)	(950)	2,154	25	28,683
Perpetual capital securities	3,000	-	3,000	-	-	-	-	-	3,000
Total equity	46,626	165	46,791	-	(143)	(950)	2,154	(1,714)	46,138

Consolidated Cash Flow Statement

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2023	2022
Net cash inflow/(outflow) from operating activities	30(a)	12,097	(5,279)
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income		(52,991)	(22,126)
Sale and redemption of financial assets measured at fair value through other comprehensive income		45,980	30,098
Dividends received from associated companies		40	42
Purchase of equipment	19	(304)	(136)
Sale of properties and equipment		102	91
Net cash (outflow)/inflow from investing activities		(7,173)	7,969
Financing activities			
Dividends paid		(2,230)	(950)
Coupon of perpetual capital securities		(144)	(143)
Net proceeds from issue of fixed rate notes		550	1,401
Interest paid on fixed rate notes		(55)	(67)
Payment of lease liabilities		(57)	(73)
Net cash (outflow)/inflow from financing activities		(1,936)	168
Increase in cash and cash equivalents		2,988	2,858
Cash and cash equivalents at 1st January		30,775	29,024
Effects of foreign exchange rate changes		(243)	(1,107)
Cash and cash equivalents at 31st December	30(b)	33,520	30,775
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks and central banks		12,878	10,059
Placements with banks, central banks and other financial institutions with an original maturity within three months		1,554	3,904
Amounts due from ultimate holding company and fellow subsidiaries with an original maturity within three months		18,736	16,453
Treasury bills with an original maturity within three months		352	359
		33,520	30,775
Cash flows from operating activities included:			
Interest received		14,859	8,551
Interest paid		7,549	2,753
Dividend received		28	19

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2023

(Expressed in millions of Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACTIVITIES

The Bank and its subsidiaries (together referred to as “the Group”) are engaged in commercial banking and related financial services.

2. MATERIAL ACCOUNTING POLICIES

(a) **Statement of compliance**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, and the applicable requirements of the Hong Kong Companies Ordinance. A summary of the material accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group’s and the Bank’s accounting policies applied in these consolidated financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) **Basis of preparation of the consolidated financial statements**

The consolidated financial statements for the year ended 31st December, 2023 comprise the Bank and its subsidiaries and the Group’s interest in associated companies. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments measured at fair value through profit or loss (“FVTPL”) and measured at fair value through other comprehensive income (“FVOCI”) (note 2(f));
- investment properties, including interests in leasehold land and buildings held as investment properties where the Group is the registered owner of the property interest (note 2(o)(vi));
- other freehold land and buildings, including interests in leasehold land and buildings where the Group is the registered owner of the property interest (note 2(o)(v)); and
- other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(o) and 2(p)).

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements *(Continued)*

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-Group balances, transactions and cash flows and any unrealised profits arising from intra-Group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(k)).

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Under the equity method, the investment is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated statement of profit or loss.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value, and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Bank's statement of financial position, its investments in associated companies are stated at cost less impairment losses, if any (note 2(k)).

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in the consolidated statement of profit or loss as a gain on a bargain purchase.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(e) Goodwill (Continued)

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or Group of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. (note 2(k)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Financial assets

(i) Classification and subsequent measurement of financial assets

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

- those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL")), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

(i) Classification and subsequent measurement of financial assets *(Continued)*

(a) Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy of how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is evaluated or managed on a fair value basis are measured at FVTPL because they are neither within the business model to hold to collect contractual cash flows, nor within the business model to hold both to collect contractual cash flows and to sell financial assets.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets *(Continued)*

(b) Assessment of whether contractual cash flows are solely payments of principal and interest

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

(ii) Financial instruments measured at amortised cost

Financial instrument is subsequently measured at amortised cost if it is held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest. Income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(iii) Debt instruments measured at FVOCI

A debt financial instrument is subsequently measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified at FVOCI are subject to the expected credit loss requirements in accordance with HKFRS 9. Interest earned whilst holding the financial assets is included in interest income.

At the reporting date, the Group recognises unrealised fair value gains and losses on revaluing these assets in OCI and presents the cumulative gains and losses in fair value reserve within equity, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the consolidated statement of profit or loss. At maturity or upon disposal, the cumulative gain or loss previously recognised in OCI is reclassified from fair value reserve to the consolidated statement of profit or loss.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

(iv) Debt instruments measured at FVTPL

Debt instruments that do not meet the requirements to be measured at amortised cost or at FVOCI are measured at FVTPL. At the reporting date, the Group recognises realised and unrealised gains and losses as trading income in the consolidated statement of profit or loss. Interest earned while holding the assets are included in interest income.

(v) Equity instruments

The Group subsequently measures all equity instruments at fair value. Equity instruments held for trading are classified at FVTPL. Equity instruments that are not held for trading may be classified as FVOCI based on an irrevocable election on initial recognition on an investment-by-investment basis.

At the reporting date, realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVTPL are recognised in the consolidated statement of profit or loss. Realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVOCI are recognised in other comprehensive income and are never reclassified to the consolidated statement of profit or loss.

Dividend earned whilst holding the equity instruments classified at FVTPL is reported as dividend income in the consolidated statement of profit or loss. Dividend from equity instruments classified at FVOCI is recognised as dividend income in the consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(vi) Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Group changes its business model for managing its financial assets.

(vii) Derecognition – 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.

(viii) 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 either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets (Continued)

(viii) Derecognition – other than on a modification *(Continued)*

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.

(g) Financial liabilities

(i) Classification and subsequent measurement of financial liabilities

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

- financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition;
- financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby 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; and
- financial guarantee contracts and loan commitments

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(g) 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.

(h) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Derivatives and hedging activities

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

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

- (i) their economic characteristics and risks are not closely related to those of the host contract;
- (ii) a separate instrument with the same terms would meet the definition of a derivative; and
- (iii) the hybrid contract is not measured at fair value through profit or loss.

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

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(i) Derivatives and hedging activities (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities, or commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

(ii) Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(iii) Fair value hedging

Changes in the fair value of derivatives that are designated and that qualify as fair value hedging instruments are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the carrying value of the asset or liability and is amortised to the consolidated statement of profit or loss as a yield adjustment over the remaining maturity of the asset or liability.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(i) Derivatives and hedging activities (Continued)

(iv) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss.

Reclassification adjustments also do not arise in relation to cash flow hedge accounting, where amounts are removed from the cash flow hedge reserve, or a separate component of equity, and are included directly in the initial cost or other carrying amount of an asset or liability. These amounts are directly transferred to assets or liabilities.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the consolidated statement of profit or loss.

(v) Hedges directly affected by interest rate benchmark reform

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from interest rate benchmark reform about the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(j) Repurchase and reverse repurchase transactions

Assets sold subject to a simultaneous agreement to repurchase these assets at a certain later date at a fixed price (repurchase agreements) are retained in the consolidated financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities to the counterparties and are carried at amortised cost.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables from the counterparties 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 method.

(k) Credit losses and impairment of assets

Under HKFRS 9, the Group recognises a loss allowance for expected credit loss (ECL) with a forward-looking ECL model.

(i) Scope

Under HKFRS 9, the expected credit loss model is applied to financial assets classified at amortised cost or FVOCI, except for equity investments, and certain off-balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(ii) Expected credit loss impairment model

Under HKFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – On initial recognition, expected credit loss will be that resulting from default events that are possible over the next 12 months (12-month ECL).
- Stage 2 – Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that resulting from default events that are possible over the expected life of the asset (Lifetime ECL).
- Stage 3 – When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, the credit loss allowance will be the full lifetime expected credit loss.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets (Continued)

(iii) Measurement

ECL are probability-weighted estimates of credit losses. 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.

For financial instruments in-scope for ECL:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The key inputs used in the measurement of ECL are:

- Probability of default (PD) – This is an estimate of the likelihood of default over a given time horizon;
- Exposure at default (EAD) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest as well as expected drawdowns on committed facilities;
- Loss given default (LGD) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. ECL for exposures in Stage 2 and 3 are calculated by multiplying lifetime PD by LGD and EAD.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(iii) Measurement *(Continued)*

Loans and bills receivables that are collectively assessed are grouped on the basis of shared credit risk characteristics such as account loan type, industry, geographical location of the borrower, collateral type and other relevant factors.

All key inputs (PD, LGD and EAD) used to estimate Stage 1 and Stage 2 expected credit loss are modelled based on three macroeconomic scenarios (or changes in macroeconomic variables) that are most closely correlated with expected credit loss in the relevant portfolio.

The three macroeconomic scenarios represent a most likely “Base” outcome, and two other less likely “Upside” and “Downside” scenarios. These scenarios are probability-weighted and underlying key macroeconomic assumptions are based on independent external and in-house views. The assumptions are subject to regular management reviews to reflect current economic situations.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for the lifetime period, reverting to long-run averages generally after 3 to 5 years periods. Depending on their usage in the models, macroeconomic variables are projected at a country or more granular level which differ by portfolio. The primary macroeconomic variables adopted are Gross Domestic Product, Unemployment rate, Property Price Index and Interest rate.

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout Group’s expected credit loss calculations.

The Group considers a financial asset to be in default by assessing both quantitative and qualitative criteria such as days past due and the terms of financial covenants. A default occurs when the borrower or bond issuer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or when the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL are the maximum contractual period over which the Group is exposed to credit risk.

Financial assets are written off against their related impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(iv) Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial recognition.

In accordance with HKFRS 9, financial assets are classified in Stage 2 where there is a significant increase in credit risk since initial recognition, where the expected credit loss will be measured using lifetime ECL.

The Group considers both qualitative and quantitative parameters in the assessment of whether this is a significant increase in credit risk. These include the following:

- (a) The Group has established thresholds for significant increases in credit risk based on a relative change in lifetime PD relative to initial recognition.
- (b) The Group conducts qualitative assessment to ascertain if there has been significant increase in credit risk.
- (c) The Group uses days past due as a further indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under HKFRS 9 will be based on objective evidence of impairment.

The assessments for a significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. A modification of the terms of a financial asset that does not result in derecognition will result in the financial asset being transferred out of Stage 3 if the indicators of it being identified as credit-impaired is no longer met and that the evidence for its transfer out of Stage 3 solely relates to events such as up-to-date and timely payment occurring in the subsequent periods.

If a modified financial asset results in derecognition, the new financial asset will be recognised under Stage 1, unless it is assessed to be credit-impaired at time of the modification.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(1) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss as follows:

(i) Interest income

Effective interest rate

Interest income is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or to the amortised cost of financial liabilities.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus 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 expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

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

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(1) **Revenue recognition** *(Continued)*

(i) **Interest income** *(Continued)*

Calculation of interest income (Continued)

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

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

For information on when financial assets are credit-impaired, see note 2(k).

(ii) **Fee and commission income**

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of HKFRS 9 and partially in the scope of HKFRS 15. If this is the case, then the Group first applies HKFRS 9 to separate and measure the part of the contract that is in the scope of HKFRS 9 and then applies HKFRS 15 to the residual.

Other fee and commission expenses relating mainly to transaction and service fees which are expensed as the services are received.

(iii) **Finance income from finance lease and hire purchase contract**

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the consolidated statement of profit or loss over the expected life of the lease as an adjustment to interest income.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(l) Revenue recognition (Continued)

(iv) Rental income from operating lease

Rental income receivable under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated statement of profit or loss except to the extent that they relate to items recognised in OCI or directly in equity, in which case the relevant amounts of tax are recognised in OCI or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(m) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(o), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met.

- in the case of current tax assets and liabilities, the Bank and the Group intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(n) Translation of foreign currencies

Functional currency of the Bank and presentation currency of the Group are Hong Kong dollars. Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated statement of profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of an overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated statement of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the reserve.

On disposal of an overseas operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated statement of profit or loss when the profit or loss on disposal is recognised.

(o) Fixed assets and depreciation

(i) Bank premises that are held for the Group's administrative use are stated in the consolidated statement of financial position at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Changes arising on the revaluation are generally dealt with in OCI and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the consolidated statement of profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the consolidated statement of profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the consolidated statement of profit or loss.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(o) Fixed assets and depreciation *(Continued)*

- (ii) Bank premises that are not held for the Group's administrative use are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. In preparing these consolidated financial statements, advantage has been taken of the transitional provisions set out in paragraph 80AA of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that bank premises that are not held for administrative use have not been revalued to fair value at the reporting date.
- (iii) Gains or losses arising from the retirement or disposal of bank premises are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated statement of profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the consolidated statement of profit or loss.
- (iv) Equipment, comprising furniture, plant and others, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.
- (v) No amortisation is provided on freehold land. Leasehold land (note 2(p)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.
- (vi) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(p)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the consolidated statement of financial position at their fair values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the consolidated statement of profit or loss.

(p) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily IT infrastructure and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether recognise it on a lease-by-lease basis. The lease payments associated with leases in respect of a low value asset are recognised as an expense on a systematic basis over the lease term.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(p) Leased assets (Continued)

(i) As a lessee (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Where the Group decides to recognise a lease, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost. The interest expense 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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The right-of-use asset is initially recognised at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(o) and 2(k)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(o)(vi); and
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2(o)(v).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(p) Leased assets *(Continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(1) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(l)(iii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k).

(2) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(o) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(l)(iv).

(q) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(k), expected credit loss for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of their carrying amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

The financial guarantees are subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(r)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation, complaint or legal claim, arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(s) Related parties

- (i)** A person, or a close member of that person's family, is related to the Group if that person:
 - (1) has control or joint control of the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or the Group's parent.

- (ii)** An entity is related to the Group if any of the following conditions applies:
 - (1) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
 - (3) both entities are joint ventures of the same third party;
 - (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (6) the entity is controlled or jointly controlled by a person identified in note 2(s)(i);
 - (7) a person identified in note 2(s)(i)(1) 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); or
 - (8) 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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Consolidated Financial Statements

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.

(v) Employee benefits

- (i)** Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii)** Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the consolidated statement of profit or loss when incurred.
- (iii)** The Bank's ultimate holding company, Oversea-Chinese Banking Corporation Limited, granted equity instruments under the OCBC Deferred Share Plan ("DSP"), OCBC Employee Share Purchase Plan ("ESP") and OCBC Share Option Scheme 2001 ("2001 Scheme") to eligible employees of the Group as deferred compensation plans.

The compensation plans are recognised as expense in the consolidated statement of profit or loss based on the fair value of the equity instruments at the date of the grant. The expense is recognised in the consolidated statement of profit or loss over the vesting period of the grant.

At each reporting date, the Group revises its estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the consolidated statement of profit or loss over the remaining vesting period.

On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity instruments that vest. Details of the plans are set out in note 34.

2. MATERIAL ACCOUNTING POLICIES *(Continued)*

(w) Government grants

Government grants are recognised at their fair value in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(x) Assets held for sale

A disposal group is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the disposal group is available for sale in its present condition. A disposal group is a Group of assets to be disposed of together as a Group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the consolidated financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(y) Reclassification of consolidated statement of profit or loss for the year ended 31st December, 2022

The Group has restated other income and premises and equipment expenses, excluding depreciation, of HK\$270 million for the year ended 31st December, 2022. An adjustment is made to reclassify the recharge of regional development centre from premises and equipment expenses, excluding depreciation, to other income with reference to HKAS 1 and HKFRS 15. The regional development centre of the Group provides system development services to the ultimate holding company at a margin determined on an arm's length basis. Hence, the other income of HK\$707 million for the year ended 31 December 2022 as previously stated in the consolidated statement of profit or loss has been restated to HK\$977 million and premises and equipment expenses, excluding depreciation, of HK\$250 million for the year ended 31 December 2022 as previously stated in the consolidated statement of profit or loss has been restated to HK\$520 million. At the same time, an adjustment is made for other Group support income to reclassify other items in other income to the other income from ultimate holding company in other income of HK\$7 million for the year ended 31st December, 2022. The above reclassification has no impact on the gross profit for the year ended 31st December, 2022 and the consolidated statement of financial position as at 31st December, 2022.

Notes to the Consolidated Financial Statements

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 19, 20 and 35 contain information about the assumptions and their risk factors relating to valuation of investment property and bank premises held for administrative use, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

(i) Fair value estimation

Fair value is derived from quoted market prices or valuation techniques which maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. Where unobservable data inputs have a significant impact on the value obtained from the valuation model, such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value, commonly referred to as “day one profit and loss” is not recognised immediately in the consolidated statement of profit or loss.

The timing of recognition of the deferred day one profit and loss is determined individually. It is amortised over the life of the transaction, released when the instrument’s fair value can be determined using market observable inputs, or when the transaction is derecognised.

(ii) Expected credit losses

The Group has the following types of financial instruments that are subject to the expected credit loss model:

- financial assets measured at amortised cost,
- financial assets measured at FVOCI,
- lease receivable, and
- loan commitment and financial guarantee contract.

Critical accounting judgements in ECL are explained in note 3(b)(i).

(iii) Determining the lease term

As explained in policy note 2(p), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Expected credit losses

In determining whether the credit risk of the Group's financial exposures has increased significantly since initial recognition, the Group considers quantitative and qualitative information such as the Group's historical credit assessment experience and available forward-looking information. Expected credit losses (ECL) estimates are based on probability-weighted forward-looking economic scenarios. The parameters used in ECL measurement (probability of default, loss given default and exposure at default) incorporates forward-looking information. The determination of the forward-looking economic scenarios and incorporation of forward-looking information into ECL measurement requires management to exercise judgement based on its assessment of current macroeconomic conditions.

(1) Expected credit loss for non-credit-impaired financial instruments

- As of 31st December, 2023, the forward-looking scenarios used in the ECL model have been updated from those as of 31st December, 2022 which reflects the latest available macroeconomic view.
- Stages 1 and 2 ECL are modelled based on a central baseline forecast with its upper and lower bound to represent forecasting ranges. However, the central forecast with its upper/lower range may not factor in significant emerging risks and macroeconomic events that are expected but uncertain in terms of impact and timing. Such events have the potential to trigger a recession but are not adequately captured in existing forecasts. Therefore, the Group added an additional scenario in the computation of ECL.

(2) Expected credit loss for credit-impaired financial instruments

In respect of credit-impaired exposures, management judgement and estimation are applied in, amongst others, identifying impaired exposures, estimating the related recoverable cash flows and where applicable, determining collateral values and timing of realisation. Judgements and assumptions in respect of these matters have been updated to reflect the relevant information as of 31st December, 2023.

The Group's expected credit losses is disclosed in Note 14.

Notes to the Consolidated Financial Statements

3. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) **Critical accounting judgements in applying the Group's accounting policies** *(Continued)*

(ii) **Fair Value Measurement**

Certain of the Group's financial assets and liabilities include significant unobservable inputs (i.e. level 3). See Note 35 for information about the carrying value, valuation techniques and significant inputs of these instruments.

(iii) **Impairment of goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segments. The recoverable amount of the CGU is determined based on value in use calculation, using cash flow projections and various assumptions. See Note 20 for information about the carrying value, value in use calculations and assumptions.

4. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA which are effective for the financial year beginning on 1st January, 2023 to these consolidated financial statements for the current accounting period:

- HKFRS 17 *Insurance Contracts*
- Definition of Accounting Estimates – Amendment to HKAS 8
- International Tax Reform – Pillar Two Model Rules – Amendments to HKAS 12
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12, and
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods except for the following:

HKFRS 17 'Insurance Contracts'

With effect from 1st January, 2023, HKFRS 17 supersedes HKFRS 4 '*Insurance Contracts*'. HKFRS 17 prescribes new accounting requirements for the recognition, presentation and disclosure of insurance and reinsurance contracts. One of the investments in associated companies namely Hong Kong Life Insurance Limited adopted the standard retrospectively with comparatives restated from the transition date, 1st January, 2022.

The associated company has made use of the option under the standard to re-designate certain eligible assets held to support insurance contract liabilities with comparatives restated from the transition date.

The tables below provide the transition restatement impact on the Group's consolidated statement of financial position as at 1st January, 2022 and 1st January, 2023, as well as consolidated statement of profit or loss and consolidated statement of other comprehensive income for the year ended 31st December, 2022.

4. CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 17 'Insurance Contracts' (Continued)

HKFRS 17 transition impact on the Group's statement of financial position at 1st January, 2023

	HKFRS 4 1st January, 2023	Remeasurement	HKFRS 17 1st January, 2023
ASSETS			
Investments in associated companies	569	72	641
All other assets	338,914	–	338,914
Total assets	339,483	72	339,555
EQUITY AND LIABILITIES			
Reserves	35,758	72	35,830
All other equity and liabilities	303,725	–	303,725
Total equity and liabilities	339,483	72	339,555

HKFRS 17 transition impact on the Group's statement of financial position at 1st January, 2022

	HKFRS 4 1st January, 2022	Remeasurement	HKFRS 17 1st January, 2022
ASSETS			
Investments in associated companies	661	165	826
All other assets	324,817	–	324,817
Total assets	325,478	165	325,643
EQUITY AND LIABILITIES			
Reserves	36,318	165	36,483
All other equity and liabilities	289,160	–	289,160
Total equity and liabilities	325,478	165	325,643

Notes to the Consolidated Financial Statements

4. CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 17 'Insurance Contracts' (Continued)

HKFRS 17 transition impact on the Group's statement of profit or loss for the year ended 31st December, 2022

	HKFRS 4 31st December, 2022	Remeasurement	HKFRS 17 31st December, 2022
Operating profit after expected credit losses	2,709	–	2,709
Share of net profit/(loss) of associated companies	234	(386)	(152)
Profit before taxation	2,943	(386)	2,557
Taxation	(403)	–	(403)
Profit for the year attributable to equity shareholder of the Bank	2,540	(386)	2,154

Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which will be effective from 1st May, 2025 (the "Transition Date"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme ("MPF Benefits") of an entity would no longer be eligible to offset against its obligations on long service payment ("LSP") for the position of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1st January, 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the "practical expedient") to account for the offsettable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" (the "Guidance") which provides clarified and detailed guidance on the accounting enactment of the Amendment Ordinance, LSP is no long a 'simple type of contributory plans' to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a). This change in accounting policy upon the cessation in applying the practical expedient has resulted in a catch-up adjustment for past service costs and a corresponding increase in Group's LSP obligations in the year of enactment of the Amendment Ordinance (i.e. year ended 31st December, 2022). The adjustment is recognized as past service costs in profit or loss for the year ended 31st December, 2022 as the Amendment Ordinance is not contemplated in the original LSP legislation.

4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong (Continued)

The change in accounting policy above does not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January, 2024, and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Group.

5. OPERATING PROFIT

(a) Interest income

	2023	2022
Interest income calculated using the effective interest method:		
– financial assets not measured at fair value through profit or loss	13,308	8,277
Other interest income:		
– trading assets	1,873	577
	15,181	8,854
of which:		
– interest income from listed investments	1,026	766
– interest income from unlisted investments	2,281	1,095
– interest income from impaired financial assets	46	20

The above interest income from impaired financial assets includes interest income on unwinding of discount on expected credit losses of HK\$10 million (2022: expected credit losses of HK\$11 million) (note 14) for the year ended 31st December, 2023.

Notes to the Consolidated Financial Statements

5. OPERATING PROFIT *(Continued)*

(b) Interest expense

	2023	2022
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	6,997	2,950
– trading liabilities	1,608	575
	8,605	3,525
of which:		
– interest expense for certificates of deposit issued	179	231
– interest expense for fixed rate note issued (note 30(a))	115	87
– interest expense for deposits from customers	6,109	2,182
– interest expense for deposits and balances of banks	592	449
– interest expense for lease liabilities (note 30(a))	2	1

(c) Net fees and commission income

	2023	2022
Net fees and commission income		
Credit commission and fees	127	120
Credit card related fees	122	106
Trade related fees	65	75
Insurance commission	132	122
Stockbroking fees	75	99
Wealth management fees	59	80
Fee income from ultimate holding company (note 32(a)(i))	399	317
Other fees and commission income	457	492
Less: Fees and commission expenses	(134)	(130)
	1,302	1,281
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	203	206
– fees and commission expenses	–	–
	203	206

5. OPERATING PROFIT (Continued)

(d) Dividends

	2023	2022
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	28	19

(e) Rental income

	2023	2022
Rental income from investment properties less direct expenses of HK\$0.5 million (2022: HK\$0.3 million)	3	3

(f) Other income

	2023	2022 (restated)
Foreign exchange*	206	439
Hedging activities		
– Fair value hedges (note 29(c))		
– hedged items	220	(645)
– hedging instruments	(191)	644
Interest rate and other derivatives	173	157
Trading securities	45	6
Others	1	1
Net trading income	454	602
Gains transferred from investment revaluation reserve upon disposal	65	35
Gains on disposal of financial assets measured at fair value through other comprehensive income	(62)	4
Total gains on disposal of financial assets measured at fair value through other comprehensive income (note 30(a))	3	39
Revaluation of investment properties (note 19 & 30(a))	(42)	(17)
Disposal of fixed assets (note 30(a))	46	57
Other income from ultimate holding company (note 32(a)(i))	344	277
Others	16	19
	821	977

* Included net interest expense of HK\$167 million (2022: HK\$84 million) related to cross currency funding swaps.

Notes to the Consolidated Financial Statements

5. OPERATING PROFIT *(Continued)*

(g) Operating expenses

	2023	2022 (restated)
Staff costs (note (i))		
Salaries and other staff costs	2,993	2,661
Retirement benefit costs (note 34(a))	208	191
Share-based payment expenses (note 34(b))	34	35
	3,235	2,887
Premises and equipment expenses, excluding depreciation	650	520
Depreciation (notes 19 & 30(a))		
– owned property, plant and equipment	263	247
– right-of-use assets	55	72
	318	319
Other expenses		
Auditor's remuneration		
Audit services	15	11
Other services	2	2
Others	434	377
	451	390
	4,654	4,116

- (i) In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the HKSAR 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 grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

6. TAXATION

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

	2023	2022
Current tax – Provision for Hong Kong profits tax		
Provision for the year	469	339
Over-provision in respect of prior years	(3)	(41)
	466	298
Current tax – Provision for tax outside Hong Kong		
Provision for the year	248	289
Over-provision in respect of prior years	(8)	(9)
	240	280
Deferred taxation		
Origination and reversal of temporary differences	(26)	(175)
	680	403

The provision for Hong Kong profits tax for 2023 is calculated at 16.5% (2022: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the regions in which the relevant units of the Group operate.

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

	2023	2022 (restated)
Profit before tax	3,718	2,557
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	665	456
Tax effect of non-deductible expenses	71	9
Tax effect of non-taxable revenue	(92)	(42)
Over-provision in respect of prior years	(11)	(44)
Others	47	24
Actual tax expense	680	403

Notes to the Consolidated Financial Statements

6. TAXATION (Continued)

(c) Current tax recoverable and payable

The components of current tax recoverable and payable in the consolidated statement of financial position are as follows:

	2023	2022
Current tax recoverable		
Provision for Hong Kong profits tax	(36)	10
Provisional profits tax paid	(5)	(14)
	(41)	(4)
Current tax payable		
Provision for Hong Kong profits tax	618	178
Provisional profits tax paid	(487)	(3)
	131	175
Provision for tax outside Hong Kong	106	220
	237	395

All current tax recoverable and payable are expected to be settled within one year.

(d) Deferred tax assets and liabilities recognised

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

	2023							
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of financial assets measured at fair value through other comprehensive income	Revaluation of cash flow hedges	Expected credit losses	Tax Loss	Others	Total
At 1st January	151	503	22	-	(141)	-	(192)	343
Charged/(credited) to consolidated statement of profit or loss	28	(1)	-	-	(19)	(53)	19	(26)
Credited to unappropriated profits	-	(31)	-	-	-	-	-	(31)
Charged to reserves	-	2	54	18	-	-	-	74
Exchange adjustments	1	-	-	-	1	-	4	6
At 31st December	180	473	76	18	(159)	(53)	(169)	366

6. TAXATION *(Continued)*

(d) Deferred tax assets and liabilities recognised (Continued)

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of financial assets measured at fair value through other comprehensive income	Expected credit losses	Others	Total
At 1st January	144	527	196	(2)	(167)	698
Charged/(credited) to consolidated statement of profit or loss	7	(7)	–	(137)	(38)	(175)
Credited to unappropriated profits	–	(25)	–	–	–	(25)
Charged/(credited) to reserves	–	8	(174)	–	–	(166)
Exchange adjustments	–	–	–	(2)	13	11
At 31st December	151	503	22	(141)	(192)	343
					2023	2022
Net deferred tax assets recognised on the consolidated statement of financial position					(144)	(106)
Net deferred tax liabilities recognised on the consolidated statement of financial position					510	449
					366	343

7. PROFIT ATTRIBUTABLE TO THE SHAREHOLDER OF THE BANK

The profit attributable to the shareholder of the Bank includes an amount of HK\$3,318 million (2022: HK\$1,727 million) which has been dealt with in the financial statements of the Bank.

Details of dividends paid and payable to equity shareholder of the Bank are set out in note 8.

8. DIVIDENDS

(a) Dividends attributable to the year

The Bank declared and paid interim dividend of HK\$1,270 million for the year ended 31st December, 2023 (2022: HK\$700 million). The final dividend of HK\$1,464 million (2022: HK\$960 million) was recommended by the Board on 9th April, 2024 and it is subject to shareholder approval at the Bank's 2024 Annual General Meeting. The dividend has not been recognised as a liability at the end of the reporting period.

(b) Dividends attributable to the previous year, approved and paid during the year

Final dividend of HK\$960 million in respect of the previous financial year was approved and paid during the year (2022: HK\$250 million).

Notes to the Consolidated Financial Statements

9. DIRECTORS' EMOLUMENTS

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

	2023	2022
Directors' fee	7	8
Salaries, allowances and benefits in kind *	6	5
Pension contributions	1	1
Performance bonuses	3	3
Share-based payments	2	4
	19	21

* Note: The non-cash benefits to directors mainly include housing allowances.

10. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	2023	2022
Cash balances	1,028	1,096
Balances with central banks	8,919	6,962
Balances with banks	3,060	2,587
Expected credit losses (Stage 1) (note 14)	–	–
	13,007	10,645

11. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023	2022
Remaining maturity		
– Within 1 month	1,554	3,156
– Over 1 month but within 1 year	1,015	748
Expected credit losses (Stage 1) (note 14)	(1)	(1)
	2,568	3,903

12. TRADING ASSETS

	2023	2022
Trading debt securities:		
Listed outside Hong Kong	3,208	1,057
Derivative financial instruments held for trading (note 29(a)(i))	9,093	8,764
	12,301	9,821
<hr/>		
Trading debt securities include:		
Treasury bills	3,175	11
Other trading debt securities	33	1,046
	3,208	1,057
<hr/>		
Trading securities analysed by counterparty are as follows:		
	2023	2022
Issued by:		
Sovereigns	3,175	11
Banks	33	1,005
Corporates	–	41
	3,208	1,057
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Notes to the Consolidated Financial Statements

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) *Advances to customers and other accounts*

	2023	2022
Gross advances to customers (note 13(b))	202,380	200,262
Expected credit losses (Stages 1 and 2) (note 14(b))	(885)	(723)
Expected credit losses (Stage 3) (note 14(b))	(203)	(267)
Net advances to customers	201,292	199,272
Gross trade bills	1,581	2,747
Expected credit losses (Stages 1 and 2) (note 14(b))	(1)	(1)
Expected credit losses (Stage 3) (note 14(b))	–	–
Net trade bills	1,580	2,746
Advances to banks	555	1,454
Expected credit losses (Stage 1) (note 14(b))	–	–
Net advances to banks	555	1,454
Customer liability under acceptances	354	856
Interest receivables	1,496	1,152
Derivative financial instruments held for hedging (note 29(a)(ii))	457	605
Other accounts	2,064	1,520
	207,798	207,605

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any expected credit losses.

	2023			2022		
	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	10,569	70.8	–	8,595	60.9	–
– Property investment	29,742	92.9	965	31,183	94.2	1,072
– Financial concerns	13,877	14.6	42	12,478	19.1	8
– Stockbrokers	1,291	34.2	–	1,690	8.3	–
– Wholesale and retail trade	5,270	40.4	53	4,794	55.1	69
– Manufacturing	3,553	45.6	10	3,650	50.3	12
– Transport and transport equipment	4,787	79.6	42	5,007	80.9	85
– Information technology	709	11.0	–	63	87.3	–
– Share financing	92	90.2	–	129	95.4	–
– Recreational activities	9	88.9	–	18	94.4	–
– Others	14,573	54.2	15	14,650	57.6	12
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	532	100.0	–	635	100.0	–
– Advances for the purchase of other residential properties	32,900	100.0	134	34,969	100.0	121
– Credit card advances	126	0.0	1	128	0.0	1
– Others	7,549	75.0	407	8,849	83.0	544
	125,579	73.4	1,669	126,838	76.7	1,924
Trade finance	6,425	50.0	11	5,509	40.5	79
Advances for use outside Hong Kong						
– Mainland China	43,524	50.2	159	41,018	53.6	754
– Macau	18,442	79.4	97	18,850	83.1	86
– Others	8,410	99.2	–	8,047	99.2	–
	70,376	63.7	256	67,915	67.2	840
	202,380	69.3	1,936	200,262	72.4	2,843

Notes to the Consolidated Financial Statements

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(c) *Impaired advances to customers*

The gross impaired advances to customers, market value of collateral held with respect to such advances and expected credit losses (Stage 3) are as follows:

	2023	2022
Gross impaired advances to customers	1,936	2,843
Gross impaired advances to customers as a percentage of total advances to customers	0.96%	1.42%
Market value of collateral held with respect to impaired advances to customers	1,874	2,620
Expected credit losses (Stage 3)	203	267

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed expected credit losses (Stage 3) were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor expected credit losses (Stage 3) made on advances to banks at 31st December, 2023 and 31st December, 2022.

(d) *Net investments in finance leases and hire purchase contracts*

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	2023		2022	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	2,299	2,509	2,438	2,614
After 1 year but within 5 years	3,467	3,665	3,520	3,653
After 5 years	1	1	2	2
	5,767	6,175	5,960	6,269
Unearned future income on finance lease	-	(408)	-	(309)
	5,767	5,767	5,960	5,960
Expected credit losses (Stage 3)	(10)		(21)	
Expected credit losses (Stages 1 and 2)	(9)		(16)	
Net investment in finance leases and hire purchase contracts	5,748		5,923	

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(e) Repossessed assets

During the year ended 31st December, 2023, the Group has taken possession of collateral it holds as security as follows:

Nature

	2023	2022
Commercial properties	10	48
Industrial properties	33	30
Residential properties	278	145
Vehicles	10	11
Others	–	2
	331	236

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2023, repossessed assets obtained as securities for impaired advances to customers totalled HK\$166 million (2022: HK\$150 million) for the Group.

Notes to the Consolidated Financial Statements

14. EXPECTED CREDIT LOSSES

(a) Reconciliation of expected credit losses

	2023			Total
	Stage 1	Stage 2	Stage 3	
At 1st January	564	487	267	1,318
Transfers of financial instruments				
– transfers from Stage 1 to Stage 2	(155)	155	–	–
– transfers from Stage 2 to Stage 1	393	(393)	–	–
– transfers to Stage 3	–	(13)	13	–
– transfers from Stage 3	1	3	(4)	–
Changes in PDs/LGDs/EADs/forward-looking assumptions	(283)	393	61	171
New financial assets originated, repayments and further lending	173	(45)	87	215
Amounts written off	–	–	(257)	(257)
Recoveries of advances written off in prior years	–	–	46	46
Unwind of discount of expected credit losses	–	–	(10)	(10)
Exchange adjustments	(7)	(2)	–	(9)
At 31st December	686	585	203	1,474
Representing expected credit losses for:				
Balances and placement with banks (notes 10 and 11)	1	–	–	1
Advances to customers (note 13(a))	402	483	203	1,088
Trade bills (note 13(a))	1	–	–	1
Contingent liabilities and commitments to extend credit (note 25)	267	93	–	360
Financial assets measured at fair value through other comprehensive income	15	9	–	24
	686	585	203	1,474

14. EXPECTED CREDIT LOSSES *(Continued)*

(a) Reconciliation of expected credit losses (Continued)

	2022			Total
	Stage 1	Stage 2	Stage 3	
At 1st January	322	147	226	695
Transfers of financial instruments				
– transfers from Stage 1 to Stage 2	(83)	83	–	–
– transfers from Stage 2 to Stage 1	97	(97)	–	–
– transfers to Stage 3	(1)	(58)	59	–
– transfers from Stage 3	13	2	(15)	–
Changes in PDs/LGDs/EADs/forward-looking assumptions	54	392	112	558
New financial assets originated, repayments and further lending	179	28	19	226
Amounts written off	–	–	(166)	(166)
Recoveries of advances written off in prior years	–	–	47	47
Unwind of discount of expected credit losses	–	–	(11)	(11)
Exchange adjustments	(17)	(10)	(4)	(31)
At 31st December	564	487	267	1,318
Representing expected credit losses for:				
Balances and placement with banks (notes 10 and 11)	1	–	–	1
Advances to customers (note 13(a))	343	380	267	990
Trade bills (note 13(a))	1	–	–	1
Contingent liabilities and commitments to extend credit (note 25)	207	98	–	305
Financial assets measured at fair value through other comprehensive income	12	9	–	21
	564	487	267	1,318

Notes to the Consolidated Financial Statements

14. EXPECTED CREDIT LOSSES *(Continued)*

(b) *Expected credit losses on financial assets*

The following tables set out information on the credit quality of financial assets, and loan commitments and financial guarantee contracts.

	2023			Total
	Stage 1	Stage 2	Stage 3	
Cash and balances with banks and central banks (note 10)				
Pass	13,007	–	–	13,007
Placements with banks, central banks and other financial institutions (note 11)				
Pass	2,569	–	–	2,569
Less: Expected credit losses	(1)	–	–	(1)
Carrying amount	2,568	–	–	2,568
Advances to customers (note 13(a))				
Pass	166,540	32,021	–	198,561
Special mention	–	1,883	–	1,883
Substandard	–	–	299	299
Doubtful	–	–	1,609	1,609
Loss	–	–	28	28
Less: Expected credit losses	(402)	(483)	(203)	(1,088)
Carrying amount	166,138	33,421	1,733	201,292
Trade bills (note 13(a))				
Pass	1,581	–	–	1,581
Less: Expected credit losses	(1)	–	–	(1)
Carrying amount	1,580	–	–	1,580
Advances to banks (note 13(a))				
Pass	555	–	–	555

14. EXPECTED CREDIT LOSSES *(Continued)*

(b) Expected credit losses on financial assets (Continued)

	2023			Total
	Stage 1	Stage 2	Stage 3	
Debt securities measured at amortised cost (note 16)				
Pass	6,167	546	–	6,713
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	76,898	3,631	–	80,529
Special mention	–	6	–	6
Expected credit losses	(15)	(9)	–	(24)

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:

Contingent liabilities and commitments to extend credit (note 28(a))				
Pass	61,542	5,725	–	67,267
Special mention	–	1	–	1
Expected credit losses	(267)	(93)	–	(360)

Notes to the Consolidated Financial Statements

14. EXPECTED CREDIT LOSSES *(Continued)*

(b) Expected credit losses on financial assets (Continued)

	2022			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks and central banks (note 10)				
Pass	10,645	–	–	10,645
Placements with banks, central banks and other financial institutions (note 11)				
Pass	3,903	1	–	3,904
Less: Expected credit losses	(1)	–	–	(1)
Carrying amount	3,902	1	–	3,903
Advances to customers (note 13(a))				
Pass	161,182	34,880	–	196,062
Special mention	–	1,357	–	1,357
Substandard	–	–	2,265	2,265
Doubtful	–	–	551	551
Loss	–	–	27	27
Less: Expected credit losses	(343)	(380)	(267)	(990)
Carrying amount	160,839	35,857	2,576	199,272
Trade bills (note 13(a))				
Pass	2,735	12	–	2,747
Less: Expected credit losses	(1)	–	–	(1)
Carrying amount	2,734	12	–	2,746
Advances to banks (note 13(a))				
Pass	1,454	–	–	1,454

14. EXPECTED CREDIT LOSSES *(Continued)*

(b) Expected credit losses on financial assets (Continued)

		2022		
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	77,500	1,685	–	79,185
Special mention	–	13	–	13
Expected credit losses	(12)	(9)	–	(21)

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:

Contingent liabilities and commitments to extend credit (note 28(a))				
Pass	57,855	10,040	–	67,895
Substandard	–	–	1	1
Expected credit losses	(207)	(98)	–	(305)

Notes to the Consolidated Financial Statements

15. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
Debt securities:		
Listed in Hong Kong	10,417	11,585
Listed outside Hong Kong	39,058	35,632
	49,475	47,217
Unlisted	31,060	31,981
	80,535	79,198
Equity securities:		
Unlisted	1,910	2,616
	82,445	81,814
Debt securities include:		
Treasury bills	19,309	24,417
Certificates of deposit held	20,120	21,154
Other debt securities	41,106	33,627
	80,535	79,198

Financial assets measured at fair value through other comprehensive income analysed by counterparty are as follows:

	2023	2022
Issued by:		
Sovereigns	19,309	24,417
Public sector entities	1,909	1,356
Banks	45,083	40,152
Corporates	16,144	15,889
	82,445	81,814

16. DEBT SECURITIES MEASURED AT AMORTISED COST

	2023	2022
Debt securities:		
Listed outside Hong Kong	2,773	–
Unlisted	3,940	–
	6,713	–

Debt securities include:		
Treasury bills	6,713	–

Debt securities measured at amortised cost analysed by counterparty are as follows:

	2023	2022
Issued by:		
Sovereigns	6,713	–

Notes to the Consolidated Financial Statements

17. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Principal activities
OCBC Bank (Macau) Limited	Macau	MOP120,000,000	100%	Banking
OCBC Bank Limited	People's Republic of China	RMB5,467,000,000	100%	Banking
OCBC Inchroy Credit Corporation Limited	Hong Kong	HK\$25,000,000	100%	Hire Purchase
OCBC Finance Company (Hong Kong) Limited	Hong Kong	HK\$130,000,000	100%	Hire Purchase
OCBC Credit (Hong Kong) Limited	Hong Kong	HK\$20,000,000	100%	Consumer Lending
OCBC Insurance Brokers (Hong Kong) Limited	Hong Kong	HK\$500,000	100%	Insurance Broker
OCBC Insurance Agency (Hong Kong) Limited	Hong Kong	HK\$50,000	100%	Insurance Agency
OCBC Securities Brokerage (Hong Kong) Limited	Hong Kong	HK\$10,000,000	100%	Securities Dealing
Cheuk Woo Enterprises Company Limited	Hong Kong	HK\$10,000	100%	Property Investment

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.

18. INVESTMENTS IN ASSOCIATED COMPANIES

	2023	2022 (restated)
Share of net assets	635	641

The following list contains the particulars of material associated companies:

Name of company	Note	Form of business structure	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Voting power	Principal activities
Bank Consortium Holding Limited	(i)	Incorporated	Hong Kong	HK\$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	(ii)	Incorporated	Hong Kong	HK\$870,000,000	33%	1 out of 3*	Insurance

* Representing the Group's number of votes on the board of directors of the respective associated companies.

Note (i): Bank Consortium Holding Limited, a major provider of retirement plans and pension fund services in Hong Kong, enables the Group to enhance its Mandatory Provident Fund services.

Note (ii): Hong Kong Life Insurance Limited, a major insurance company in Hong Kong, enables the Group to expand the customer base for its insurance services.

All of the above associated companies are accounted for using the equity method in the consolidated financial statements.

In respect of the year ended 31st December, 2023, the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited were included in these financial statements based on accounts drawn up to 30th November, 2023. The Group has taken advantage of the provision contained in HKAS 28, *Investments in Associates*, whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

Notes to the Consolidated Financial Statements

18. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

Summarised financial information of the material associated companies, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Bank Consortium Holding Limited		Hong Kong Life Insurance Limited		
	31st December, 2023	31st December, 2022	31st December, 2023	31st December, 2022 (restated)	1st January, 2022
Gross amounts of the associated companies					
Assets	1,267	1,180	14,758	14,019	16,888
Liabilities	147	106	13,464	12,664	15,420
Net assets	1,120	1,074	1,294	1,355	1,468
Total operating income	809	784	(221)	(612)	2,322
Profit after tax	196	216	(256)	(659)	46
Other comprehensive income	–	–	22	19	(34)
Total comprehensive income	196	216	(234)	(640)	12
Dividends received from the associated companies	40	42	–	–	–
Reconciled to the Group's interests in the associated companies					
Gross amounts of net assets of the associated companies					
	1,120	1,074	1,294	1,355	1,468
Group's effective interest	27%	27%	33%	33%	33%
Group's share of net assets of the associated companies	299	286	431	452	489
Dividends received from the associated companies	(40)	(42)	–	–	–
Elimination of unrealised gain on transfer of bank premises to the associated companies	(38)	(38)	(26)	(26)	(26)
Carrying amount in the consolidated financial statements					
	221	206	405	426	463

18. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

Aggregate information of an associated company that is not individually material:

	31st December, 2023	31st December, 2022 (restated)	1st January, 2022
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	9	9	9
Aggregate amounts of the Group's share of net assets of the associated company	9	9	9
Total operating income	120	94	99
Profit/(Loss) after tax	15	(5)	(8)
Total comprehensive income	15	(5)	(8)
Reconciliation of carrying amounts to the Group's total interests in the associated companies:			
Carrying amount of material associated companies			
– Bank Consortium Holding Limited	221	206	189
– Hong Kong Life Insurance Limited	405	426	463
Carrying amount of the individually immaterial associated company	9	9	9
Investments in associated companies in the consolidated financial statements	635	641	661

Notes to the Consolidated Financial Statements

19. FIXED ASSETS

	2023								
	Investment properties	Bank premises	Right of use assets – Bank premises	Total Bank premises	Equipment and others (note (i))	Right of use assets – equipment	Total equipment	Bank premises and equipment	Total
Cost or valuation									
At 1st January	293	5,039	334	5,373	1,695	5	1,700	7,073	7,366
Additions	–	–	40	40	304	–	304	344	344
Disposals	–	(8)	–	(8)	(59)	–	(59)	(67)	(67)
Reclassification to assets held for sale	(35)	(43)	–	(43)	–	–	–	(43)	(78)
Deficit on revaluation									
– charged to bank premises revaluation reserve	–	(99)	–	(99)	–	–	–	(99)	(99)
– charged to consolidated statement of profit or loss (note 5(f))	(42)	–	–	–	–	–	–	–	(42)
Elimination of accumulated depreciation on revalued bank premises	–	(107)	–	(107)	–	–	–	(107)	(107)
Termination of lease	–	–	(29)	(29)	–	–	–	(29)	(29)
Exchange adjustment	–	(7)	(1)	(8)	–	–	–	(8)	(8)
At 31st December	216	4,775	344	5,119	1,940	5	1,945	7,064	7,280
The analysis of cost or valuation of the above assets is as follows:									
At cost	–	1,205	344	1,549	1,940	5	1,945	3,494	3,494
At valuation 2023 (note 19(a))	216	3,570	–	3,570	–	–	–	3,570	3,786
At 31st December	216	4,775	344	5,119	1,940	5	1,945	7,064	7,280
Accumulated depreciation									
At 1st January	–	366	249	615	1,364	1	1,365	1,980	1,980
Charge for the period (note 5(g))	–	141	54	195	122	1	123	318	318
Written back on disposals	–	(2)	–	(2)	(56)	–	(56)	(58)	(58)
Reclassification to assets held for sale	–	(32)	–	(32)	–	–	–	(32)	(32)
Elimination of accumulated depreciation on revalued bank premises	–	(107)	–	(107)	–	–	–	(107)	(107)
Termination of lease	–	–	(19)	(19)	–	–	–	(19)	(19)
Exchange adjustment	–	(6)	(1)	(7)	–	–	–	(7)	(7)
At 31st December	–	360	283	643	1,430	2	1,432	2,075	2,075
Net book value									
At 31st December	216	4,415	61	4,476	510	3	513	4,989	5,205

Note (i): Includes computer software of HK\$202 million (2022: HK\$164 million). The cost and accumulated depreciation are HK\$626 million (2022: HK\$547 million) and HK\$424 million (2022: HK\$383 million) respectively.

19. FIXED ASSETS (Continued)

	2022								
	Investment properties	Bank premises	Right of use assets – Bank premises	Total Bank premises	Equipment and others	Right of use assets – equipment	Total equipment	Bank premises and equipment	Total
Cost or valuation									
At 1st January	310	5,240	317	5,557	1,601	5	1,606	7,163	7,473
Additions	–	–	63	63	136	1	137	200	200
Disposals	–	–	–	–	(44)	–	(44)	(44)	(44)
Reclassification to assets held for sale	–	(43)	–	(43)	–	–	–	(43)	(43)
Deficit on revaluation									
– charged to bank premises revaluation reserve	–	(26)	–	(26)	–	–	–	(26)	(26)
– charged to consolidated statement of profit or loss (note 5(f))	(17)	–	–	–	–	–	–	–	(17)
Elimination of accumulated depreciation on revalued bank premises	–	(105)	–	(105)	–	–	–	(105)	(105)
Termination of lease	–	–	(39)	(39)	–	(1)	(1)	(40)	(40)
Exchange adjustment	–	(27)	(7)	(34)	2	–	2	(32)	(32)
At 31st December	293	5,039	334	5,373	1,695	5	1,700	7,073	7,366
The analysis of cost or valuation of the above assets is as follows:									
At cost	–	1,263	334	1,597	1,695	5	1,700	3,297	3,297
At valuation 2022 (note 19(a))	293	3,776	–	3,776	–	–	–	3,776	4,069
	293	5,039	334	5,373	1,695	5	1,700	7,073	7,366
Accumulated depreciation									
At 1st January	–	387	220	607	1,290	1	1,291	1,898	1,898
Charge for the period (note 5(g))	–	131	71	202	116	1	117	319	319
Written back on disposals	–	–	–	–	(42)	–	(42)	(42)	(42)
Reclassification to assets held for sale	–	(22)	–	(22)	–	–	–	(22)	(22)
Elimination of accumulated depreciation on revalued bank premises	–	(105)	–	(105)	–	–	–	(105)	(105)
Termination of lease	–	–	(38)	(38)	–	(1)	(1)	(39)	(39)
Exchange adjustment	–	(25)	(4)	(29)	–	–	–	(29)	(29)
At 31st December	–	366	249	615	1,364	1	1,365	1,980	1,980
Net book value									
At 31st December	293	4,673	85	4,758	331	4	335	5,093	5,386

Notes to the Consolidated Financial Statements

19. FIXED ASSETS (Continued)

(a) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.
- Level 3: Fair value measured using significant unobservable inputs.

	2023	
	Level 3	Total
Recurring fair value measurements		
Investment properties	216	216
Bank premises held for administrative use	3,570	3,570
	3,786	3,786
	2022	
	Level 3	Total
Recurring fair value measurements		
Investment properties	293	293
Bank premises held for administrative use	3,776	3,776
	4,069	4,069

During the year ended 31st December, 2023, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises held for administrative use were revalued by independent firms of surveyors, Colliers International (Hong Kong) Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors and Savills Real Estate Valuation (Guangzhou) Ltd., who is registered with the Royal Institution of Chartered Surveyors. All firms have recent experience in the location and category of the properties being valued.

19. FIXED ASSETS (Continued)

(a) Fair value measurement of properties (Continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable inputs	Ranges
Investment properties and bank premises held for administrative use	Direct comparison approach	Premium (discount) on quality of the properties	-10% to 10% (2022: -40% to 25%)

The fair value of investment properties and bank premises are determined using the direct comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's properties compared to the recent sales. The valuations take into account characteristics of the properties including the location, size, view, floor level, year of completion and other factors collectively. Higher premiums for higher quality properties will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2023		2022	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	293	3,776	310	3,907
Reclassification to assets held for sale	(35)	–	–	–
Depreciation charge for the year	–	(107)	–	(105)
Deficit on revaluation				
– charged to bank premises revaluation reserve	–	(99)	–	(26)
– charged to consolidated statement of profit or loss	(42)	–	(17)	–
At 31st December	216	3,570	293	3,776

Notes to the Consolidated Financial Statements

19. FIXED ASSETS *(Continued)*

(a) **Fair value measurement of properties** *(Continued)*

(ii) **Information about Level 3 fair value measurements** *(Continued)*

Fair value adjustment of investment properties is recognised in the line item “Other income” on the face of the consolidated statement of profit or loss.

Deficit on revaluation of bank premises is recognised in OCI as “Bank premises revaluation reserve”.

All the losses recognised in the consolidated statement of profit or loss for the year arise from the properties held at the end of the reporting period.

(iii) The deficit on revaluation on bank premises held for administrative use net of deferred tax of HK\$101 million (2022: HK\$34 million) have been recognised in OCI and accumulated in the bank premises revaluation reserve of the Group.

(iv) The carrying amount of the Group’s bank premises held for administrative use would have been HK\$669 million (2022: HK\$721 million) had they been stated at cost less accumulated depreciation.

(b) **The net book value of investment properties and bank premises is as follows:**

	2023	2022
FREEHOLD		
– Held outside Hong Kong	235	240
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,361	2,419
Medium-term leases (10 to 50 years unexpired)	1,535	1,662
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	–	2
Medium-term leases (10 to 50 years unexpired)	200	327
Short-term leases (less than 10 years unexpired)	300	316
	4,631	4,966

19. FIXED ASSETS *(Continued)*

(c) **Fixed assets leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

The Group's total future minimum lease payments of all fixed assets under non-cancellable operating leases are receivables as follows:

	2023	2022
Within 1 year	1	3
After 1 year but within 2 years	1	1
	2	4

20. GOODWILL

(a) **Goodwill**

	2023	2022
Cost		
At 1st January/31st December	1,307	1,307
Accumulated impairment loss		
At 1st January/31st December	1	1
Net book value		
At 1st January/31st December	1,306	1,306

(b) **Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

	2023	2022 (restated)
Hong Kong:		
Consumer banking business acquired	577	577
Wholesale banking business acquired	676	676
Global Market business acquired	53	53
	1,306	1,306

Notes to the Consolidated Financial Statements

20. GOODWILL (Continued)

(b) Impairment tests for cash-generating units containing goodwill (Continued)

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 2.50% (2022: 2.50%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 15.11% (2022: 14.36%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The financials of consumer banking business and wholesale banking business have been restated to conform to the current year's presentation that reflected the reallocation between business segments in 2023 in alignment with Oversea-Chinese Banking Corporation Limited. Details of the segment reporting are set out in note 31 to the financial statements.

21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	2023		2022	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	43	44	46	47
After 1 year but within 2 years	14	14	30	30
After 2 years but within 5 years	6	7	14	15
	20	21	44	45
	63	65	90	92
Less: total future interest expenses		(2)		(2)
Present value of lease liabilities		63		90

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 6 months to 5 years but may have extension options as described below. 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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Extension and termination options:

Extension and termination options are included in a number of fixed assets leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

22. DEPOSITS FROM CUSTOMERS

	2023	2022
Demand deposits and current accounts	87,777	94,359
Savings deposits	18,957	24,276
Time, call and notice deposits	156,268	128,575
	263,002	247,210

The above deposits from customers included deposits from central banks.

23. CERTIFICATES OF DEPOSIT AND FIXED RATE NOTE ISSUED

	2023	2022
Certificates of deposit issued at amortised cost	3,184	8,243
Fixed rate note issued at amortised cost	3,865	3,368
	7,049	11,611

24. TRADING LIABILITIES

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 29(a).

25. OTHER ACCOUNTS AND PROVISIONS

	2023	2022
Acceptances outstanding	354	856
Interest payable	1,883	926
Derivative financial instruments held for hedging (note 29(a)(ii))	240	292
Other payables	2,202	2,136
Expected credit losses (Stages 1 and 2) on contingent liabilities and commitments to extend credit (note 14)	360	305
	5,039	4,515

Notes to the Consolidated Financial Statements

26. MATURITY PROFILE

The following maturity profiles of the assets and liabilities of the Group are based on the remaining periods to repayment at the reporting date.

	2023							Undated	Total
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Over 5 years		
Assets									
Cash and balances with banks and central banks	13,007	-	-	-	-	-	-	-	13,007
Placements with banks, central banks and other financial institutions	22	1,532	390	624	-	-	-	-	2,568
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	-	9,067	5,748	3,817	3,988	466	-	-	23,086
Trading assets	-	-	-	-	3,140	68	9,093	-	12,301
Advances to customers	1,710	32,355	17,035	34,967	60,984	52,308	1,933	-	201,292
Trade bills	1	762	771	1	44	-	1	-	1,580
Advances to banks	-	90	231	234	-	-	-	-	555
Financial assets measured at fair value through other comprehensive income	-	4,307	8,424	31,182	35,148	1,474	1,910	-	82,445
Debt securities measured at amortised cost	-	918	1,271	1,751	2,773	-	-	-	6,713
Other assets	112	2,815	363	275	580	44	7,513	-	11,702
Total assets	14,852	51,846	34,233	72,851	106,657	54,360	20,450	-	355,249
Liabilities									
Deposits and balances of banks	4,812	7,123	-	-	-	-	-	-	11,935
Amounts due to ultimate holding company and fellow subsidiaries	-	629	10,101	913	13	-	-	-	11,656
Deposits from customers	109,696	47,779	46,972	57,347	1,208	-	-	-	263,002
Certificates of deposit and fixed rate note issued	-	550	548	4,019	1,932	-	-	-	7,049
Trading liabilities	-	-	-	-	-	-	9,408	-	9,408
Lease liabilities	-	3	8	23	13	16	-	-	63
Other liabilities	35	1,660	1,393	1,124	259	11	1,304	-	5,786
Total liabilities	114,543	57,744	59,022	63,426	3,425	27	10,712	-	308,899
Net assets/(liabilities) gap	(99,691)	(5,898)	(24,789)	9,425	103,232	54,333	9,738	-	46,350

of which:

Certificates of deposit held									
- included in financial assets measured at fair value through other comprehensive income	-	1,937	5,339	12,844	-	-	-	-	20,120
Debt securities									
- included in trading assets	-	-	-	-	3,140	68	-	-	3,208
- included in financial assets measured at fair value through other comprehensive income	-	2,370	3,085	18,338	35,148	1,474	-	-	60,415
- included in debt securities measured at amortised cost	-	918	1,271	1,751	2,773	-	-	-	6,713

26. MATURITY PROFILE (Continued)

	Repayable on demand	Within 1 month	2022			Over 5 years	Over Undated	Total
			Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years			
Assets								
Cash and balances with banks and central banks	10,645	–	–	–	–	–	–	10,645
Placements with banks, central banks and other financial institutions	–	3,155	748	–	–	–	–	3,903
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	14,375	17	15	3,199	718	–	18,324
Trading assets	–	–	–	–	1,057	–	8,764	9,821
Advances to customers	1,604	34,405	14,938	26,679	62,378	56,429	2,839	199,272
Trade bills	2	516	1,897	331	–	–	–	2,746
Advances to banks	–	211	926	317	–	–	–	1,454
Financial assets measured at fair value through other comprehensive income	–	2,337	12,662	32,020	31,421	758	2,616	81,814
Other assets	127	2,293	614	208	314	14	7,934	11,504
Total assets	12,378	57,292	31,802	59,570	98,369	57,919	22,153	339,483
Liabilities								
Deposits and balances of banks	3,332	3,068	676	336	–	–	–	7,412
Amounts due to ultimate holding company and fellow subsidiaries	545	9,447	2,910	148	–	–	–	13,050
Deposits from customers	118,587	48,550	28,822	50,014	1,237	–	–	247,210
Certificates of deposit and fixed rate note issued	–	560	6,575	908	3,568	–	–	11,611
Trading liabilities	–	–	–	–	–	–	8,685	8,685
Lease liabilities	–	5	10	22	25	28	–	90
Other liabilities	–	1,691	1,101	860	478	–	1,229	5,359
Total liabilities	122,464	63,321	40,094	52,288	5,308	28	9,914	293,417
Net assets/(liabilities) gap	(110,086)	(6,029)	(8,292)	7,282	93,061	57,891	12,239	46,066

of which:

Certificates of deposit held								
– included in financial assets measured at fair value through other comprehensive income	–	681	6,633	13,840	–	–	–	21,154
Debt securities								
– included in trading assets	–	–	–	–	1,057	–	–	1,057
– included in financial assets measured at fair value through other comprehensive income	–	1,656	6,029	18,180	31,421	758	–	58,044

Notes to the Consolidated Financial Statements

27. SHARE CAPITAL AND RESERVES

(a) *Share capital*

	2023		2022	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	353	7,308	353	7,308
At 31st December	353	7,308	353	7,308

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual net assets.

(b) *Perpetual capital securities issued*

	2023	2022
HK\$3,000 million perpetual non-cumulative subordinated Additional Tier 1 capital securities at amortised cost (2022: HK\$3,000 million)	3,000	3,000

On 12th December, 2018, the Bank issued non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company, Oversea-Chinese Banking Corporation Limited. The securities are undated and the coupon rate was reset on 12th December, 2023 to 6.63% per annum for the first 5 years up to 12th December, 2028. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will have optional call dates on every coupon distribution date thereafter, which are semi-annually on 12th June or 12th December in each year. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

On 27th September, 2019, the Bank issued another non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company, Oversea-Chinese Banking Corporation Limited. The securities are undated and bear a coupon rate of 4.25% per annum for the first 5 years until the first optional call date on 27th September, 2024. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

27. SHARE CAPITAL AND RESERVES (Continued)

(c) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	General reserve	Bank premises revaluation reserve	Investment revaluation reserve (recycling)	The Bank 2023 Investment revaluation reserve (non-recycling)	Cash flow hedging reserve	Unappropriated profits	Total
At 1st January	1,802	2,274	(737)	1,235	-	19,506	24,080
Coupon of perpetual capital securities	-	-	-	-	-	(144)	(144)
Dividends declared or approved during the year	-	-	-	-	-	(2,230)	(2,230)
Transfer (from)/to reserve	-	(39)	-	-	-	39	-
	-	(39)	-	-	-	(2,335)	(2,374)
Total comprehensive income:							
- Cash flow hedges net of deferred tax	-	-	-	-	93	-	93
- fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	-	-	364	(368)	-	-	(4)
- fair value changes on financial assets measured at fair value through other comprehensive income transferred to statement of profit or loss on disposal net of deferred tax	-	-	(13)	-	-	-	(13)
- deficit on revaluation net of deferred tax	-	(61)	-	-	-	-	(61)
- expected credit losses on debt securities	-	-	1	-	-	-	1
- profit attributable to shareholder of the Bank for the year	-	-	-	-	-	3,318	3,318
Total comprehensive income for the year, net of tax	-	(61)	352	(368)	93	3,318	3,334
At 31st December	1,802	2,174	(385)	867	93	20,489	25,040

Notes to the Consolidated Financial Statements

27. SHARE CAPITAL AND RESERVES (Continued)

(c) Reserves (Continued)

	General reserve	Bank premises revaluation reserve	Investment revaluation reserve (recycling)	The Bank 2022 Investment revaluation reserve (non-recycling)	Cash flow hedging reserve	Unappropriated profits	Total
At 1st January	1,802	2,320	29	1,187	(3)	18,836	24,171
Coupon of perpetual capital securities	-	-	-	-	-	(143)	(143)
Dividends declared or approved during the year	-	-	-	-	-	(950)	(950)
Transfer (from)/to reserve	-	(36)	-	-	-	36	-
	-	(36)	-	-	-	(1,057)	(1,093)
Total comprehensive income:							
- Cash flow hedges net of deferred tax	-	-	-	-	3	-	3
- fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	-	-	(786)	48	-	-	(738)
- fair value changes on financial assets measured at fair value through other comprehensive income transferred to statement of profit or loss on disposal net of deferred tax	-	-	20	-	-	-	20
- deficit on revaluation net of deferred tax	-	(10)	-	-	-	-	(10)
- profit attributable to shareholder of the Bank for the year	-	-	-	-	-	1,727	1,727
Total comprehensive income for the year, net of tax	-	(10)	(766)	48	3	1,727	1,002
At 31st December	1,802	2,274	(737)	1,235	-	19,506	24,080

The Group's unappropriated profits at 31st December, 2023 included a regulatory reserve of HK\$471 million (2022: HK\$619 million). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by OCBC Bank (Macau) Limited and OCBC Bank Limited in accordance with the local banking regulations and are not available for distribution.

27. SHARE CAPITAL AND RESERVES *(Continued)*

(c) Reserves *(Continued)*

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the reporting date of OCBC Bank Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from the translation of the financial statements of overseas subsidiaries (note 2(n)).

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges (note 2(i)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and financial assets measured at fair value through other comprehensive income (notes 2(o) and (f)). Bank premises revaluation reserve does not represent realised profits and are not available for distribution.

At 31st December, 2023, the aggregate amount of reserves available for distribution to equity shareholder of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed in the cash flow hedging reserve was HK\$21,810 million (2022: HK\$20,178 million).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to equity shareholder.

Notes to the Consolidated Financial Statements

28. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arise from forward asset purchases, amounts owing to partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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

	2023	2022
Direct credit substitutes	5,291	5,545
Transaction-related contingencies	1,520	1,727
Trade-related contingencies	3,975	3,512
Other commitments:		
With an original maturity of not more than one year	576	1,922
With an original maturity over one year	4,490	4,662
Which are unconditionally cancellable	51,416	50,528
Total	67,268	67,896
Credit risk weighted amounts	6,129	8,409

(b) Capital commitments

Capital commitments for acquisition of fixed assets outstanding at 31st December, 2023 not provided for in the financial statements are as follows:

	2023	2022
Expenditure authorised and contracted for	103	120

29. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives refer to financial contracts for which the value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The Group has applied the following relief from hedge accounting requirements that were introduced by the amendments made to HKFRS 9:

- When considering the 'highly probable' requirement, the Group assumes that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.
- In assessing the economic relationship between the hedged item and the hedging instrument, the Group assume that the interest rate benchmark on which the hedged item and hedging instruments are based is not altered as a result of the interest rate benchmark reform.
- For fair value hedges of interest rate risk on fixed rate debt, the Group only assesses whether the designated benchmark is separately identifiable at hedge inception and not revisited on reporting date.

In applying the amendments, the Group assumes that the uncertainty arising from interest rate benchmark reform is no longer present when contracts are modified to reflect the new benchmark rates or are discontinued. The Group also assumes that when modifying contracts to reflect the new benchmark rates, no other changes to the terms of the contracts will be made.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

Notes to the Consolidated Financial Statements

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The following table is a summary of the notional amounts of each significant type of derivative.

	2023		Total
	Qualifying for hedge accounting	Others, including held for trading	
Exchange rate contracts	6,539	725,064	731,603
Interest rate contracts	42,466	1,131,094	1,173,560
Equity contracts	–	6,548	6,548
Credit derivative contracts	–	3,638	3,638
	49,005	1,866,344	1,915,349
	2022		Total
	Qualifying for hedge accounting	Others, including held for trading	
Exchange rate contracts	4,273	474,553	478,826
Interest rate contracts	31,524	740,064	771,588
Equity contracts	–	8,363	8,363
Credit derivative contracts	–	3,536	3,536
	35,797	1,226,516	1,262,313

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions. Derivatives arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate, debt and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

(a) *Use of derivative financial instruments*

- (i) The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivative entered into by the Group:

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	5,824	6,247	6,555	6,536
Interest rate contracts	2,760	2,652	1,548	1,493
Equity contracts	504	504	656	656
Credit derivative contracts	5	5	5	–
Total (notes 12 and 24)	9,093	9,408	8,764	8,685

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(a) *Use of derivative financial instruments (Continued)*

(ii) The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivative entered into by the Group:

Type of risk hedged	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges				
Exchange rate contracts				
Interest rate and Foreign exchange	63	178	96	143
Interest rate contracts	283	62	509	149
	346	240	605	292
Cash flow hedges				
Interest rate contracts	111	–	–	–
Total (notes 13 and 25)	457	240	605	292

(b) *Remaining life of derivative financial instruments*

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the reporting date.

	2023			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	719,879	11,724	–	731,603
Interest rate contracts	747,142	423,832	2,586	1,173,560
Equity contracts	5,309	1,239	–	6,548
Credit derivative contracts	3,638	–	–	3,638
	1,475,968	436,795	2,586	1,915,349

Notes to the Consolidated Financial Statements

29. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(b) Remaining life of derivative financial instruments (Continued)

	2022			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	470,625	8,201	–	478,826
Interest rate contracts	451,074	318,387	2,127	771,588
Equity contracts	7,975	388	–	8,363
Credit derivative contracts	3,536	–	–	3,536
	933,210	326,976	2,127	1,262,313

(c) Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets due to movements in market interest rates. At 31st December, 2023, the net positive fair value of derivatives held as fair value hedges was HK\$106 million (2022: HK\$313 million).

The losses on the hedging instruments for the year were HK\$191 million (2022: gains of HK\$644 million). The gains on the hedged items attributable to the hedged risk for the year were HK\$220 million (2022: losses of HK\$645 million).

	2023		2022	
	Carrying amounts	Accumulated fair value hedge adjustments included in carrying amount	Carrying amounts	Accumulated fair value hedge adjustments included in carrying amount
Assets				
Financial assets measured at fair value				
through other comprehensive income	11,418	(115)	11,829	(416)
Advances to customers and other accounts	8,941	(97)	4,749	(195)
Liabilities				
Certificates of deposit and				
fixed rate note issued	3,865	(15)	3,368	(8)
Deposits from customers	17,960	2	15,774	143

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value hedges (Continued)

The following shows derivative instruments designated in fair value hedge accounting relationships linked to IBOR reference rates:

		2023			Notional designed	Weighted average exposure years
Type of risk hedged	Within 1 year	Over 1 year but within 5 years	Over 5 years			
Interest rate swaps						
HIBOR	Interest rate	19,009	3,039	–	22,048	0.76
USD SOFR	Interest rate	2,243	6,484	592	9,319	2.34
SHIBOR	Interest rate	2,751	770	–	3,521	0.66
AUD Bank Bill Swap Rate	Interest rate	–	75	–	75	4.71
EUR Short-term rate	Interest rate	–	590	44	634	3.07
		24,003	10,958	636	35,597	
Cross-currency swaps						
HIBOR	Interest rate and Foreign exchange	1,171	–	–	1,171	0.55
USD SOFR	Interest rate and Foreign exchange	3,559	1,808	–	5,367	0.92
		4,730	1,808	–	6,538	
		2022				
Type of risk hedged	Within 1 year	Over 1 year but within 5 years	Over 5 years	Notional designed	Weighted average exposure years	
Interest rate swaps						
HIBOR	Interest rate	15,779	3,259	–	19,038	1.04
USD LIBOR	Interest rate	2,854	2,656	511	6,021	1.59
USD SOFR	Interest rate	188	709	316	1,213	3.85
EUIBOR	Interest rate	166	324	–	490	2.72
SHIBOR	Interest rate	–	3,027	–	3,027	1.98
		18,987	9,975	827	29,789	
Cross-currency swaps						
HIBOR	Interest rate and Foreign exchange	1,177	–	–	1,177	0.55
USD SOFR	Interest rate and Foreign exchange	1,591	1,505	–	3,096	1.52
		2,768	1,505	–	4,273	
Bond Futures	Interest rate	1,735	–	–	1,735	0.25

Notes to the Consolidated Financial Statements

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(d) Cash flow hedges

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate assets. At 31st December, 2023, the net positive fair value of derivatives held as cash flow hedges was HK\$111 million (2022: the Group does not hold any derivatives designated for cash flow hedges). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2022: nil). Hedging relationships that are impacted by IBOR reform may experience ineffectiveness because of a timing mismatch between the hedged item and the hedging instrument regarding IBOR transition.

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of profit or loss are as follows:

	2023		Total
	Within 1 year	Over 1 year but within 5 years	
Forecast receivable cash flows	367	505	872

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the reporting date:

Type of risk hedged	2023		Weighted average exposure years
	Over 1 year but within 5 years	Notional designed	
Interest rate swaps			
HIBOR Interest rate	6,870	6,870	2.38

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2023	2022
Operating profit	3,690	2,709
Adjustments for non-cash items:		
Change in expected credit losses and other credit impairment charges	386	784
Interest expense on fixed rate note issued (note 5(b))	115	87
Interest expense on lease liabilities (note 5(b))	2	1
Net gains from disposal of financial assets measured at fair value through other comprehensive income (note 5(f))	(3)	(39)
Losses on revaluation of investment properties (note 5(f))	42	17
Gains on disposal of fixed assets (note 5(f))	(46)	(57)
Depreciation (note 5(g))	318	319
	4,504	3,821
Changes in working capital:		
Change in treasury bills with original maturity of three months or above	(4,776)	(3,903)
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	(1,015)	–
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	(2,646)	32
Change in certificates of deposit held	1,035	(12,284)
Change in trading assets	795	(3,804)
Change in advances to customers and other accounts	(521)	(1,205)
Change in deposits and balances of banks	4,980	72
Change in amounts due to ultimate holding company and fellow subsidiaries	(1,228)	(2,476)
Change in deposits from customers	15,792	17,476
Change in certificates of deposit issued	(5,058)	(6,324)
Change in trading liabilities	723	3,361
Change in other accounts and provision	411	160
Net cash inflow/(outflow) from operations	12,996	(5,074)
Profits tax paid	(899)	(205)
Net cash inflow/(outflow) from operating activities	12,097	(5,279)

Notes to the Consolidated Financial Statements

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Reconciliation of cash and cash equivalents with the consolidated statement of financial position

	2023	2022
Cash and balances with banks and central banks	13,007	10,645
Placements with banks, central banks and other financial institutions	2,569	3,904
Amounts due from ultimate holding company and fellow subsidiaries	23,086	18,324
Treasury bills	29,198	24,428
<hr/>		
Amounts shown in the consolidated statement of financial position	67,860	57,301
Less: Amounts with an original maturity of three months or above	(33,597)	(24,439)
Deposits and balances of banks that are repayable on demand	(743)	(2,087)
<hr/>		
Cash and cash equivalents in the consolidated cash flow statement	33,520	30,775

(c) Reconciliation of liabilities arising from financing activities:

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

	2023	2022
At 1st January	6,497	5,283
Net proceeds from issue of fixed rate notes	550	1,401
Interest paid on fixed rate note	(55)	(67)
Payment of lease liabilities	(57)	(73)
Exchange adjustment	(57)	(197)
Net increase in lease liabilities from entering into new leases and termination of existing leases	30	62
Interest expenses on fixed rate note (note 5(b))	115	87
Interest expenses on lease liabilities (note 5(b))	2	1
<hr/>		
At 31st December	7,025	6,497

31. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision makers regard and manage the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision makers for the purposes of assessing segment performance and making decisions about operating matters.

In alignment with Oversea-Chinese Banking Corporation Limited, the Group's operating segments have been changed from Retail Banking, Corporate Banking and Treasury activities in 2022 to Consumer Banking, Wholesale Banking and Global Market activities in 2023.

Where there are material changes in the organisational structure and management reporting methodologies, segment information for prior periods is reclassified to allow comparability.

Hong Kong segment

The operating segments in Hong Kong include consumer banking, wholesale banking and global market activities.

Consumer Banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Wholesale Banking activities include acceptance of deposits, advance of commercial and industrial loans, trade financing and institutional banking.

Global Market activities include foreign exchange services, management of investment securities, trading activities and management of shareholders' funds.

Mainland China segment

The main operating segments of OCBC Bank Limited are wholesale banking and global market activities.

Macao segment

The main business segment of OCBC Bank (Macau) Limited is consumer banking.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include balances and placements with banks, central banks and other financial institutions, advances to customers and banks, and financial assets. Segment liabilities include deposits and financial liabilities.

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

The identification of reportable segments has also considered geographical information which is classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Notes to the Consolidated Financial Statements

31. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2023										
	Hong Kong Operations					Others	Total	Mainland China	Macau	Inter- segment elimination	Total
	Hong Kong Banking Business										
	Consumer banking	Wholesale banking	Global Markets	Total							
Net interest income	741	2,846	1,055	4,642	8	4,650	1,332	594	-	6,576	
Non-interest income	389	465	(238)	616	401	1,017	1,058	129	(50)	2,154	
Reportable segment revenue	1,130	3,311	817	5,258	409	5,667	2,390	723	(50)	8,730	
Operating expenses	(1,085)	(1,325)	(183)	(2,593)	(212)	(2,805)	(1,540)	(359)	50	(4,654)	
Operating profit before expected credit losses	45	1,986	634	2,665	197	2,862	850	364	-	4,076	
Change in expected credit losses and other credit impairment charges	11	(334)	(2)	(325)	(42)	(367)	(41)	22	-	(386)	
Operating profit	56	1,652	632	2,340	155	2,495	809	386	-	3,690	
Share of net profit of associated companies	-	-	-	-	28	28	-	-	-	28	
Reportable segment profit before tax	56	1,652	632	2,340	183	2,523	809	386	-	3,718	
Depreciation	(33)	(2)	(1)	(36)	(129)	(165)	(130)	(23)	-	(318)	
Segment assets	52,293	88,086	85,246	225,625	-	225,625	80,484	28,312	(1,104)	333,317	
Investments in associated companies	-	-	-	-	635	635	-	-	-	635	
Fixed assets	-	-	-	-	4,275	4,275	363	556	11	5,205	
Goodwill	-	-	-	-	1,306	1,306	-	-	-	1,306	
Current tax assets	-	-	-	-	41	41	-	-	-	41	
Deferred tax assets	-	-	-	-	59	59	85	-	-	144	
Other assets	-	-	-	-	11,099	11,099	10,356	3,543	(10,397)	14,601	
Total assets	52,293	88,086	85,246	225,625	17,415	243,040	91,288	32,411	(11,490)	355,249	
Segment liabilities	83,465	107,601	4,845	195,911	-	195,911	69,005	23,794	(1,100)	287,610	
Current tax payable	-	-	-	-	132	132	59	46	-	237	
Deferred tax liabilities	-	-	-	-	348	348	-	162	-	510	
Other liabilities	-	-	-	-	9,831	9,831	11,430	3,311	(4,030)	20,542	
Total liabilities	83,465	107,601	4,845	195,911	10,311	206,222	80,494	27,313	(5,130)	308,899	
Addition to non-current assets	15	2	2	19	207	226	63	15	-	304	

31. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

	2022 (restated)									
	Hong Kong Operations									
	Hong Kong Banking Business									
	Consumer banking	Wholesale banking	Global Markets	Total	Others	Total	Mainland China	Macau	Inter- segment elimination	Total
Net interest income	922	1,992	664	3,578	(20)	3,558	1,244	527	-	5,329
Non-interest income	314	318	107	739	394	1,133	1,075	128	(56)	2,280
Reportable segment revenue	1,236	2,310	771	4,317	374	4,691	2,319	655	(56)	7,609
Operating expenses	(1,017)	(1,117)	(229)	(2,363)	(72)	(2,435)	(1,399)	(338)	56	(4,116)
Operating profit before expected credit losses	219	1,193	542	1,954	302	2,256	920	317	-	3,493
Change in expected credit losses and other credit impairment charges	(2)	(322)	-	(324)	(92)	(416)	(359)	(9)	-	(784)
Operating profit	217	871	542	1,630	210	1,840	561	308	-	2,709
Share of net loss of associated companies	-	-	-	-	(152)	(152)	-	-	-	(152)
Reportable segment profit before tax	217	871	542	1,630	58	1,688	561	308	-	2,557
Depreciation	(59)	-	(2)	(61)	(118)	(179)	(118)	(22)	-	(319)
Segment assets	57,001	84,423	75,180	216,604	-	216,604	73,747	28,177	(1,119)	317,409
Investments in associated companies	-	-	-	-	641	641	-	-	-	641
Fixed assets	-	-	-	-	4,394	4,394	407	574	11	5,386
Goodwill	-	-	-	-	1,306	1,306	-	-	-	1,306
Current tax assets	-	-	-	-	4	4	-	-	-	4
Deferred tax assets	-	-	-	-	8	8	98	-	-	106
Other assets	-	-	-	-	11,866	11,866	9,675	2,735	(9,573)	14,703
Total assets	57,001	84,423	75,180	216,604	18,219	234,823	83,927	31,486	(10,681)	339,555
Segment liabilities	68,961	105,528	12,209	186,698	-	186,698	62,301	22,518	(1,121)	270,396
Current tax payable	-	-	-	-	175	175	161	59	-	395
Deferred tax liabilities	-	-	-	-	250	250	-	199	-	449
Other liabilities	-	-	-	-	11,814	11,814	11,078	3,508	(4,223)	22,177
Total liabilities	68,961	105,528	12,209	186,698	12,239	198,937	73,540	26,284	(5,344)	293,417
Addition to non-current assets	33	1	-	34	34	68	58	10	-	136

Notes to the Consolidated Financial Statements

31. SEGMENT REPORTING *(Continued)*

(b) Other geographical information

	2023				
	Hong Kong	Mainland China	Macau	Less: inter- segment elimination	Total
Contingent liabilities and commitments (note 28(a))	21,199	44,264	2,488	(683)	67,268
	2022				
	Hong Kong	Mainland China	Macau	Less: inter- segment elimination	Total
Contingent liabilities and commitments (note 28(a))	25,871	40,180	2,528	(683)	67,896

32. MATERIAL RELATED PARTY TRANSACTIONS

(a) *Ultimate holding company*

The Oversea-Chinese Banking Corporation Limited (“OCBC”)

During the year, transactions with OCBC were entered into by the Group in the ordinary course of business and on normal commercial terms.

Commencing 1st December, 2021, the management team of OCBC Hong Kong Branch was integrated with the Bank, while the two entities remain as separately licensed banks. As part of the integration, OCBC Hong Kong Branch also made arrangement to outsource all its operations, risk and controls functions to the Bank. The Bank received fee income on provision of outsourcing services on normal commercial terms.

The Bank has entered into an agreement to acquire OCBC Hong Kong Branch’s retail customer deposit on 21st June, 2022. On 11th November, 2022, the Bank completed the purchase with a consideration of HK\$700 million.

The income and expenses during the year and on-balance sheet and off-balance sheet outstanding at the reporting date were:

	2023	2022 (restated)
(i) Income and expense during the year		
Interest income	565	223
Interest expense	330	279
Fee income (note 5(c))	399	317
Other income (note 2(y) and 5(f))	344	277
(ii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	22,690	17,894
Amounts due to ultimate holding company, including – Certificates of deposit issued at amortised cost	11,373 721	12,847 4,877
(iii) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	50,667	35,345
Interest rate contracts	36,497	28,303
Equity contracts	3,173	4,080
Credit derivative contracts	1,819	1,745

Notes to the Consolidated Financial Statements

32. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Fellow companies

(1) Fellow subsidiaries

During the year, transactions with OCBC fellow subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and on-balance sheet outstanding at the reporting date are:

	2023	2022
(i) Income and expense during the year		
Interest income	16	18
Interest expense	1	1
Other operating income	3	4
Operating expense	25	23
(ii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	396	430
Amounts due to fellow subsidiaries	283	203

(2) Fellow associates

During the year, transactions with OCBC fellow associates are entered into by the Group in the ordinary course of business and on normal commercial terms. The off-balance sheet outstanding at the reporting date is:

	2023	2022
(i) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	1,804	62
Interest rate contracts	55	–

32. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Subsidiaries

During the year, the Bank entered into transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses during the year and on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2023	2022
(i) Income and expense during the year		
Interest income	1,085	503
Interest expense	80	24
Other operating income	37	38
Operating expense	18	18

The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.

Other operating income represents income from providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.

Operating expense represents rental services and share brokerage services fees paid to the Bank's subsidiaries by the Bank.

All income and expense on these transactions are determined on an arm's length basis.

(ii) On-balance sheet outstanding at the reporting date

Amounts due from subsidiaries	22,043	22,622
Amounts due to subsidiaries	4,112	3,720

During the year, no expected credit loss (Stage 3) has been made in respect of these balances at 31st December, 2023 (2022: nil).

(iii) Off-balance sheet outstanding (contract amounts) at the reporting date

Direct credit substitutes	6	6
Other commitments	7,032	6,572

(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date

Exchange rate contracts	117	–
Interest rate contracts	4,120	3,741

Notes to the Consolidated Financial Statements

32. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Associated companies

During the year, the Bank entered into transactions with associated companies in the ordinary course of business and on normal commercial terms. The income and expenses during the year and on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2023	2022
(i) Income and expense during the year		
Interest expense	6	3
(ii) On-balance sheet outstanding at the reporting date		
Deposits from customers	544	224
(iii) Off-balance sheet outstanding (contract amounts) at the reporting date		
Other commitments	20	20

(e) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments during the year and on-balance sheet outstanding at the reporting date are as follows:

	2023	2022
(i) Income and expense during the year		
Interest expense	1	16
(ii) On-balance sheet outstanding at the reporting date		
Advances to customers	6	3
Deposits from customers	3	1,467

32. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) **Key management personnel** *(Continued)*

(iii) **Emoluments for the year**

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 9 is as follows:

	2023	2022
Short-term employee benefits	26	23
Post-employment benefits	1	1
Equity compensation benefits	3	5
	30	29

(f) **Loans to directors**

Loans to directors of the company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies *(Disclosure of Information about Benefits of Directors)* Regulation are as follows:

	2023	2022
Aggregate amount of relevant loans outstanding at 31st December	6	3
The maximum aggregate amount of relevant loans outstanding during the year	9	4

(g) During the year, no expected credit loss (Stage 3) has been made in respect of the above advances to related parties (2022: nil).

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS

Overview

The Group has a comprehensive and integrated risk management approach that covers all types of risks, underpinned by a strong corporate culture. This approach is embodied in our risk management framework, which incorporates our risk appetite and governance. It covers the key principles, policies, and practices we use to manage both financial and non-financial risks.

Principal risk types include Credit Risk, Liquidity Risk, Market Risk, Operational Risk, Information Security and Digital Risk (ISDRM). We take an integrated and risk-based approach to addressing the financial and reputational implications with respect to ESG and climate risks. The risks are managed with the requisite competencies and resources, detailed guidelines and procedures, infrastructure and systems that commensurate with our defined risk-taking parameters. We pay close attention to identifying, measuring, setting tolerance and monitoring, reporting and dynamically reviewing the risks we accept.

A robust risk governance structure ensures effective oversight and accountability of risk. The Risk Management Committee (“RMC”) is the designated board committee overseeing risk management matters. It ensures that the Group’s overall risk management philosophy and principles and risk appetite are aligned with the corporate strategy.

Risk and Control Function independently and objectively identifies and assesses the risk-taking activities of the first line. It oversees the implementation of risk management frameworks, policies, processes and provide independent identification, assessment, monitoring and reporting of risk profiles.

Risk Appetite

Our aim is to manage risks in a prudent and sustainable manner for the long-term viability of the Group. The Board determines the Group’s risk appetite, defining the level and nature of risks that we can undertake on behalf of our shareholders while maintaining our commitments to customers, regulators, employees and other stakeholders. Business plans take into account the corporate strategy, the forward-looking operating environment and potential risks assessed against our risk appetite.

Our risk appetite is operationalised across the Group through our policies, processes and limits to manage both financial and non-financial risks. Senior business and risk managers participate in regular forums to review macroeconomic and financial developments and discuss operating conditions, event risks and potential ‘dark clouds’ that may significantly impact on our earnings or solvency. These risks are measured via stress tests as well as segment-specific and ad hoc event-specific portfolio reviews. The results are used to assess the potential impact of various scenarios on our earnings and capital, and to identify vulnerabilities of material portfolios and trigger appropriate risk management actions.

We conduct an annual Internal Capital Adequacy Assessment Process that incorporates the results of stress tests for various risk types. The aim is to assess if we can maintain sufficient capital levels under a forward-looking operating environment and in severe stress scenarios. Appropriate risk-mitigating actions are taken to manage potential risks.

33. MANAGEMENT OF RISKS *(Continued)*

The following notes present information about the Group's exposure to each of the above risks, its objectives, frameworks and processes for measuring and managing risks, and management of capital.

Climate-related risk financial disclosure shall be referred to a separate Task Force on Climate-Related Financial Disclosures Report. The report provides insights into the Group's governance approach, strategy and risk management, as well as key metrics and targets for climate-related financial risks.

(a) Credit risk management

Credit risk is the risk of losing principal and/or income from the failure of an obligor or counterparty to meet its financial or contractual obligations due to an adverse change in the credit profile of an obligor or counterparty. It arises from the lending activities to retail, corporate and institutional customers. It also includes counterparty and issuer credit risks arising from the underwriting, trading and investment banking activities.

Our credit risk framework documents the credit risk objectives and minimum standards for the full credit risk management cycles of the Group's lending business. The approach is tailored based on the unique characteristics and nature of various portfolios or customer segments. Credit decisions are made within predefined risk acceptance criteria after comprehensive risk assessment. The Credit Policies also take into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Credit portfolio management focuses on managing the collective or aggregate risk of our credit portfolios, instead of the credit risk of individual borrowers. We have developed and implemented a range of capabilities to identify, measure and monitor credit risk at the portfolio level. These capabilities include Portfolio Segmentation which is the process of grouping credit exposures that are similar in nature, and Portfolio Modeling which includes using internal rating models to quantify the exposure risk, default risk and potential losses of borrowers.

The Group also uses internal rating models and their components such as probability of default (PD), loss given default (LGD) and exposure of default (EAD) in limit setting, credit approval, portfolio monitoring and reporting, remedial management, stress testing and assessment of capital adequacy and portfolio allowance. The development, validation, application and maintenance of rating models are governed by the relevant Model Risk Management framework.

Credit risk mitigation measures are adopted by the Group, such as holding collateral and setting netting arrangements to reduce risk credit risk exposure. However, risk mitigation does not replace our proper assessment of the obligor's ability to repay, which remains the primary repayment source.

Remedial Management is in place to foster early identification of vulnerable borrowers. The quality of our credit portfolios is proactively monitored and discussed at various risk forums. Action plans to remediate deteriorating trends are worked out and reviewed at such forums. Dedicated remedial management units manage the restructuring, work-out and recovery of non-performing assets ("NPAs") for wholesale portfolios. The goal is to rehabilitate NPAs where possible or maximize recoveries for NPAs that are on an exit strategy.

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

The Group adopts "Policy & Procedures for Loan Classification" based on HKMA guideline. 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.

(i) Corporate credit risk

Corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. Corporate customers are assessed individually with robust independent evaluation carried out by experienced credit officers. Business and credit risk units jointly approve credits to ensure objectively and shared risk ownership. The Bank also conduct regular reviews and forward-looking stress tests at borrower and portfolio levels to monitor credit quality and identify potential weak credit. The Group also has internal limits to manage exposure to individual industries and for borrowers and groups of borrowers or linked-counterparties.

(ii) Consumer and Small Business Credit

Consumers and selected small businesses customers are assessed through credit programs with predefined acquisition strategies, product structure and portfolio and transaction limits, as well as customer selection, lending and collateral criteria. Advanced application models and systems are used for efficient, objective and consistent credit decision making and customer due diligence checks. The credit risk of this customer segment is monitored on a portfolio basis.

(iii) Credit risk for treasury transactions

Counterparty credit risk emerges from the potential default of a counterparty during our trading and/or banking activities in derivatives and debt securities.

Each counterparty undergoes robust credit assessment. An internal risk grading and individual counterparty limits are assigned and reviewed regularly. For debt securities in the treasury portfolio, the Group considers both internal and external ratings which are actively monitored and updated.

Credit risk mitigation tools are used to manage counterparty credit risk, including entering master netting agreements and other collateral arrangements or margin requirements with counterparties, or using of central clearing mechanism.

(iv) Credit-related commitments

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

33. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(v) Master netting arrangements

To mitigate counterparty credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a single net claim basis.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2023					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Derivative financial instruments	9,550	-	9,550	(457)	(8)	9,085
Interest receivable	150	(120)	30	-	-	30
	9,700	(120)	9,580	(457)	(8)	9,115

	2023					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	7,710	-	7,710	(7,710)	-	-
Amounts due to ultimate holding company and fellow subsidiaries	125	-	125	(125)	-	-
Deposits from customers	20	-	20	(20)	-	-
Derivative financial instruments	9,648	-	9,648	(457)	(73)	9,118
Interest payable	171	(120)	51	-	-	51
	17,674	(120)	17,554	(8,312)	(73)	9,169

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(v) Master netting arrangements (Continued)

	2022					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	789	-	789	(789)	-	-
Advances to customers	448	-	448	(448)	-	-
Derivative financial instruments	9,369	-	9,369	(430)	(371)	8,568
Interest receivable	116	(87)	29	-	-	29
	10,722	(87)	10,635	(1,667)	(371)	8,597

	2022					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	2,470	-	2,470	(2,470)	-	-
Amounts due to ultimate holding company and fellow subsidiaries	979	-	979	(979)	-	-
Deposits from customers	-	-	-	-	-	-
Derivative financial instruments	8,977	-	8,977	(430)	(3)	8,544
Interest payable	140	(87)	53	-	-	53
	12,566	(87)	12,479	(3,879)	(3)	8,597

33. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(vi) **Concentration of credit risk**

Concentration of credit risk occurs when a significant portion of exposure is focused on a particular geography, industry, product, counterparty, or group. The Group's portfolio is diversified across various geographies, industries, and products in adherence to the approved limits set by the relevant functional risk committees. The information of the advances to customers analysed by industry sectors and by geographical area is disclosed in note 13(b) of "Notes to the consolidated financial statements" and note (b) of "Unaudited supplementary financial information" respectively.

(1) *Maximum exposure*

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any expected credit loss/impairment allowance. A summary of the maximum exposure is as follows:

	2023	2022
Cash and balances with banks and central banks	13,007	10,645
Placements with banks, central banks and other financial institutions	2,568	3,903
Amounts due from ultimate holding company and fellow subsidiaries	23,086	18,324
Trading assets	12,301	9,821
Advances to customers	201,292	199,272
Trade bills	1,580	2,746
Advances to banks	555	1,454
Financial assets measured at fair value through other comprehensive income	82,445	81,814
Financial guarantees and other credit related contingent liabilities	10,786	10,784
Loan commitments and other credit related commitments	56,482	57,112

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(vi) Concentration of credit risk (Continued)

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted on the basis that our associated companies have good credit standing. At 31st December, 2023 and 2022, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers is analysed as follows:

	2023	2022
Gross advances to customers		
– neither past due nor impaired	198,567	194,988
– past due but not impaired	1,877	2,431
– impaired (note 13(c))	1,936	2,843
	202,380	200,262

of which:

Gross advances to customers		
– Grade 1: Pass	198,561	196,062
– Grade 2: Special mention	1,883	1,357

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	2023	2022
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	1,877	2,431

At 31st December, 2023, advances to customers that were not past due or impaired but had the terms been renegotiated amounted to HK\$1 million (2022: HK\$2 million) for the Group.

33. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(vi) Concentration of credit risk (Continued)

(3) Credit quality of financial assets other than advances to customers, banks and associated companies

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate credit risk, and risk gradings are applied to the counterparties with individual counterparty limits set.

At the reporting date, the credit quality of investment in debt securities analysed by designation of external credit assessment institutions, Standard & Poor's Ratings Services or their equivalents, are as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2023			Total
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	
AAA	–	12,183	6,713	18,896
AA– to AA+	–	18,235	–	18,235
A– to A+	3,208	45,968	–	49,176
BBB to BBB+	–	2,041	–	2,041
Lower than BBB	–	540	–	540
	3,208	78,967	6,713	88,888
Unrated	–	1,568	–	1,568
	3,208	80,535	6,713	90,456

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(vi) **Concentration of credit risk** *(Continued)*

(3) *Credit quality of financial assets other than advances to customers, banks and associated companies (Continued)*

	Financial assets measured at fair value through profit or loss	2022 Financial assets measured at fair value through other comprehensive income	Total
AAA	–	16,451	16,451
AA– to AA+	–	15,518	15,518
A– to A+	1,016	42,912	43,928
BBB to BBB+	–	3,780	3,780
Lower than BBB	41	242	283
	1,057	78,903	79,960
Unrated	–	295	295
	1,057	79,198	80,255

There are no debt securities which are overdue at 31st December, 2023 (2022: nil).

Included in “Other assets” of the Group at 31st December, 2023 and 31st December, 2022, there are no receivables which are overdue.

(4) *Collateral and other credit enhancements*

Our credit policies outline the key considerations for eligible credit risk mitigants including legal certainty and enforceability, correlation, liquidity, marketability, counterparty risk of the credit protection provider and collateral specific minimum operational requirements. The most common of these is accepting collateral for funds advanced.

33. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

(vi) Concentration of credit risk *(Continued)*

(4) Collateral and other credit enhancements *(Continued)*

The Group adopts prudent valuation practices for the collateral obtained as part of the loan origination process. Where collateral is taken, regular independent valuations of the collateral are conducted.

The principal collateral types for loans and advances are:

- Mortgages over properties;
- Other pledge/legal charge over assets and cash deposits, and guarantees duly registered (where applicable);
- Commercial properties as collateral against loans to associated companies;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements; and
- Charges over financial instruments such as debt securities and equities.

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

Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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 proactively monitors the vulnerable exposures and maximizes recoveries by possession of collateral held as security.

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(vi) **Concentration of credit risk** *(Continued)*

(4) *Collateral and other credit enhancements (Continued)*

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	2023	2022
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	4,800	6,649

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 12 to 16 and the geographical concentration of the Group's assets is disclosed in note (b) of "Unaudited supplementary financial information".

(b) **Liquidity risk management**

Liquidity risk is the risk arising from the inability to meet financial and cash outflow obligations as they fall due. Liquidity risk refers to the risk of being unable to meet our contractual and regulatory financial obligations. The objective of liquidity risk management is to ensure that we continue to fulfill our financial obligations and to undertake new transactions, through the management of liquidity and funding risks within our risk appetite.

Liquidity risks arise from cashflow mismatches in maturing assets, liabilities, and off-balance sheet items. Liquidity risks are also identified through the monitoring of early warning indicators of potential liquidity risk, which take into account the market environment as well as any other financial risks that could potentially trigger a liquidity risk event. Early identification of liquidity risk is crucial for effective management of our funding requirements and liquidity risks.

Liquidity risk metrics consist of a framework for projecting cash flows on both contractual and behavioural bases under businesses as usual and stressed market scenarios. We also established liquidity and funding concentration ratios to measure and manage the effective diversification of funding sources, and the adequacy of sources of liquidity under stressed conditions.

33. MANAGEMENT OF RISKS *(Continued)*

(b) Liquidity risk management *(Continued)*

The Group performs stress testing under a range of scenarios to assess the potential impact of extreme market events on our liquidity risk profile. We regularly review these stress scenarios in the context of the prevailing risk climate, financial conditions and liquidity strategies. Stress testing bolsters our resilience in the face of liquidity stresses, helping us to anticipate and set aside sufficient liquidity buffers while applying the relevant stress testing outcomes to develop effective funding strategies, policies and contingency funding plans.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits and responsibility of relevant departments in emergency situations. The plan is updated and reviewed at least annually by ALCO to ensure that it remains robust over time. Any revision will be concurred by the Risk Management Committee. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any early warning indicators of serious liquidity problems, which may trigger the contingency funding plan.

Liquidity positions are monitored and reported against approved liquidity risk limits and triggers. Limits are established in alignment with our risk appetites, taking into account our funding capacity, business requirements and the liquidity environment we operate in. There is also an established review, oversight, and escalation process to facilitate prompt escalation and remediation of any limit exceptions.

The Group maintained an average liquidity maintenance ratio (“LMR”) and core funding ratio (“CFR”) of 48.5% and 153.0% respectively in 2023 (2022: 39.3% of LMR; 141.8% of CFR), which are well above the statutory requirement of 25% and 75% respectively. The liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules.

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS (Continued)

(b) Liquidity risk management (Continued)

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for: all non-derivative financial liabilities, and net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

	2023							Gross cash outflow
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	
Non-derivative financial liabilities								
Deposits and balances of banks	4,812	7,149	-	-	-	-	-	11,961
Amounts due to ultimate holding company and fellow subsidiaries	-	629	10,173	1,048	13	-	-	11,863
Deposits from customers	109,696	48,206	47,861	59,100	1,269	-	-	266,132
Certificates of deposit and fixed rate note issued	-	550	551	4,021	2,013	-	-	7,135
Other liabilities	35	1,237	759	447	254	26	1,304	4,062
	114,543	57,771	59,344	64,616	3,549	26	1,304	301,153
Unrecognised loan commitments	19,228	969	4,098	27,620	4,334	233	-	56,482
Financial guarantees and other credit related contingent liabilities	426	1,648	4,224	4,172	315	1	-	10,786
	19,654	2,617	8,322	31,792	4,649	234	-	67,268
Derivative cash flows								
Derivative financial instruments settled on net basis	-	32	52	66	126	6	-	282
Derivative financial instruments settled on a gross basis								
- total outflow	-	27,715	5,338	11,971	597	-	-	45,621
- total inflow	-	(27,486)	(5,201)	(11,742)	(617)	-	-	(45,046)
	-	229	137	229	(20)	-	-	575

33. MANAGEMENT OF RISKS *(Continued)*

(b) Liquidity risk management *(Continued)*

	Repayable on demand	Within 1 month	2022			Over 5 years	Undated	Gross cash outflow
			Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years			
Non-derivative financial liabilities								
Deposits and balances of banks	3,332	3,092	676	336	–	–	–	7,436
Amounts due to ultimate holding company and fellow subsidiaries	545	9,457	2,939	280	–	–	–	13,221
Deposits from customers	118,616	48,778	29,095	51,436	1,279	–	–	249,204
Certificates of deposit and fixed rate note issued	–	560	6,577	914	3,572	–	–	11,623
Other liabilities	–	1,503	965	341	485	28	1,229	4,551
	122,493	63,390	40,252	53,307	5,336	28	1,229	286,035
Unrecognised loan commitments	22,837	1,577	3,254	24,432	4,608	404	–	57,112
Financial guarantees and other credit related contingent liabilities	476	1,868	4,088	4,327	657	1	–	11,417
	23,313	3,445	7,342	28,759	5,265	405	–	68,529
Derivative cash flows								
Derivative financial instruments settled on net basis	–	19	68	142	66	11	–	306
Derivative financial instruments settled on a gross basis								
– total outflow	–	10,630	3,213	7,591	2,962	–	–	24,396
– total inflow	–	(10,605)	(3,180)	(7,260)	(2,923)	–	–	(23,968)
	–	25	33	331	39	–	–	428

Details of the analysis on the Group's material assets and liabilities categorised into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date are set out in note 26.

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management**

Market risk is the risk of income and/or market value loss due to fluctuations in factors such as interest rates, foreign exchange rates, credit spreads, equity and commodity prices or their volatilities and correlations arising from both trading and/or banking activities.

Market risks arise primarily from our trading, client servicing and balance sheet management activities. Our market risk management framework covers the identification, assessment, measurement, monitoring and control of risks. Group-level market risk policies and procedures have been established to provide common guidelines and standards for managing market risks. Our market risk management strategy and limits – established within our risk appetite and in line with our business strategies – are regularly reviewed, taking into account prevailing macroeconomic and market conditions.

The RMC reviews and approves the Group's market risk management framework. ALCO supports RMC in monitoring the market risk. ALCO oversees the market risk management objectives and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems and internal controls. Market Risk Management ("MRM") is an independent risk-control unit responsible for implementing the market risk management framework to support business growth while ensuring adequate risk control and oversight.

Business units are responsible for proactively managing risk within their approved trading strategies and investment mandates. Limits are approved to reflect available and anticipated trading opportunities, with clearly defined exception escalation procedures. Exceptions, including temporary breaches, are promptly reported and escalated to senior management for resolution. Multiple risk limits (VaR and risk sensitivities), Profit & Loss ("P&L") stop loss and other measures are also used to manage market risk exposures holistically.

Our internal approval processes ensure that market risk is properly identified and quantified, allowing us to manage and mitigate such risks.

Value-At-Risk ("VaR") is a key metric used to quantify market risk exposures arising from our trading activities. VaR is measured and monitored by individual market risk components, namely interest rate risk, foreign exchange risk, equity risk and credit spread risk, as well as at the consolidated level. Our VaR model is based on the historical simulation approach, calibrated at the 99% confidence level, and a one-day holding period. A 99% confidence level means that, statistically, losses on a single trading day may exceed VaR, on average, once every 100 days. To ensure the continued integrity of the VaR model, we regularly back-test the VaR estimates against actual daily trading P&Ls and theoretical P&Ls to confirm that the VaR model does not underestimate market risk exposures.

33. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management *(Continued)*

As our main market risk arises from interest rate movements, Present Value of a Basis Point (“PV01”) which measures the change in value of interest rate-sensitive exposures resulting from a one basis point increase across the entire yield curve – is an important measure that is monitored on a daily basis. Other than VaR and PV01, risk metrics such as notional positions, P&L for One Basis Point Move in Credit Spreads (CS01) and other risk variables for specific exposure types are also used.

We perform stress testing and scenario analysis to assess and quantify potential losses from unlikely but plausible extreme market conditions. The stress scenarios are regularly reviewed and adjusted to ensure that their relevance to the Group’s trading activities, risk profile, and current and forecasted economic conditions. These analyses determine if potential losses from such extreme market conditions are within the Group’s risk tolerance.

(i) Managing interest rate benchmark reform and associated risks

Interbank Offered Rates (IBOR) Transition

The London Interbank Offered Rate (LIBOR), formerly a key benchmark in international financial markets, has been phased out and replaced by Risk Free Rates (RFRs). All British pound, Euro, Swiss franc and Japanese yen LIBORs, as well as the 1-week and 2-month US dollar LIBORs were discontinued on 31 December, 2021. All remaining US dollar LIBORs were discontinued on 30th June, 2023.

To ensure a smooth transition from LIBOR to RFRs, the Bank established an internal Steering Committee to coordinate efforts across various business, control, and support functions. The Bank made the necessary system upgrades and modifications to ensure the readiness of our infrastructure and process in a timely manner.

We have also assessed the adequacy of provisions relating to the discontinuation of benchmarks in the Bank’s documentation for loans, derivatives, debt instruments and other relevant transactions, and remediated the necessary documentation.

The following table shows the total amount of non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments that have yet to transition to an alternative benchmark rate at 31st December, 2022.

	2022	
	USD LIBOR	Total
Gross carrying amount		
Non-derivative financial assets	2,374	2,374
Notional amount		
Derivative financial instruments	5,184	5,184

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(ii) **Interest rate risk**

Interest rate risks arise from interest rate sensitive instruments which are repriced at different times (“gap risk”), are repriced by referencing different interest rate benchmarks (“basis risks”), or possess optionality with respect to timing of cashflows or interest rates under different circumstances (“optionality risk”). The Group measure Interest Rate Risk in the Banking Book (“IRRBB”) from the perspective of both earnings and capital. Interest rate sensitivity such as PV01 and repricing gap profile analysis are also part of the risk metrics employed.

Interest rate sensitivity in a simplified scenario sets out below is for risk management reporting. Actual changes in the Group’s profit before tax resulting from a change in interest rates may differ from the result of the sensitivity analysis. The effect on interest rate sensitive financial instruments and interest rate swaps has been included in this calculation. The analysis is performed on the same basis as 2022.

	2023	2022
	Increase/ (decrease) in Group’s profit before tax	Increase/ (decrease) in Group’s profit before tax
Increase in 100 basis points	101	209
Decrease in 100 basis points	(101)	(209)

33. MANAGEMENT OF RISKS (Continued)

(c) Market risk management (Continued)

(ii) Interest rate risk (Continued)

The following tables indicate the expected next repricing dates for the assets and liabilities at the reporting date.

	2023					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks and central banks	13,007	4,263	–	–	–	8,744
Placements with banks, central banks and other financial institutions	2,568	1,943	625	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	23,086	20,464	43	282	2,297	–
Trading assets	12,301	9,093	–	3,139	69	–
Advances to customers and other accounts	207,243	169,029	22,262	11,131	246	4,575
Advances to banks	555	321	234	–	–	–
Financial assets measured at fair value through other comprehensive income	82,445	21,340	28,415	29,305	1,474	1,911
Debt securities measured at amortised cost	6,713	2,189	1,751	2,773	–	–
Other assets	7,331	–	–	–	–	7,331
Total assets	355,249	228,642	53,330	46,630	4,086	22,561
Liabilities						
Deposits and balances of banks	11,935	11,932	3	–	–	–
Amounts due to ultimate holding company and fellow subsidiaries	11,656	10,716	515	419	6	–
Deposits from customers	263,002	182,651	57,331	1,208	–	21,812
Certificates of deposit and fixed rate notes issued	7,049	1,098	4,019	1,932	–	–
Trading liabilities	9,408	–	–	–	–	9,408
Lease liabilities	63	–	–	–	–	63
Other liabilities	5,786	–	–	–	–	5,786
Total liabilities	308,899	206,397	61,868	3,559	6	37,069
Derivatives (in the banking book) net long/(short) position (notional amount)	5,344	47,624	(20,633)	(21,011)	(636)	–
Interest rate sensitivity gap	51,694	69,869	(29,171)	22,060	3,444	(14,508)

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS (Continued)

(c) Market risk management (Continued)

(ii) Interest rate risk (Continued)

	Total	Within 3 months	2022		Over 5 years	Non-interest bearing
			Over 3 months but within 1 year	Over 1 year but within 5 years		
Assets						
Cash and balances with banks and central banks	10,645	3,432	–	–	–	7,213
Placements with banks, central banks and other financial institutions	3,903	3,903	–	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	18,324	17,684	8	72	560	–
Trading assets	9,821	8,764	–	1,057	–	–
Advances to customers and other accounts	206,151	176,242	15,852	9,251	326	4,480
Advances to banks	1,454	1,137	317	–	–	–
Financial assets measured at fair value through other comprehensive income	81,814	22,086	28,656	27,699	757	2,616
Other assets	7,371	–	–	–	–	7,371
Total assets	339,483	233,248	44,833	38,079	1,643	21,680
Liabilities						
Deposits and balances of banks	7,412	7,076	336	–	–	–
Amounts due to ultimate holding company and fellow subsidiaries	13,050	10,459	2,470	121	–	–
Deposits from customers	247,210	174,778	50,013	1,239	–	21,180
Certificates of deposit and fixed rate notes issued	11,611	7,148	895	3,568	–	–
Trading liabilities	8,685	–	–	–	–	8,685
Lease liabilities	90	–	–	–	–	90
Other liabilities	5,359	–	–	–	–	5,359
Total liabilities	293,417	199,461	53,714	4,928	–	35,314
Derivatives (in the banking book) net (short)/long position (notional amount)	(102)	(2,621)	11,704	(8,358)	(827)	–
Interest rate sensitivity gap	45,964	31,166	2,823	24,793	816	(13,634)

33. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

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

The following table indicates the effective interest rates for the last month of the year:

	2023	2022
	%	%
Placement with banks, central banks and other financial institutions	4.40	3.36
Advances to customers and trade bills	3.90	2.98
Debt securities	4.95	4.43
	4.59	3.95
Deposits and balances of banks	3.73	2.94
Deposits from customers	3.08	2.13
Certificates of deposit issued	3.43	3.05
Fixed rate note issued	3.23	3.32
	3.14	2.24

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS (Continued)

(c) Market risk management (Continued)

(iii) Currency risk

The Group's foreign exchange positions, which arise from foreign exchange dealings, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALCO. All foreign exchange positions are managed by the ALCO within the limits approved by the Board.

	2023							Total
	US\$	Chinese Renminbi	Pound Sterling	Canadian \$	New Zealand \$	Macau Patacas	Other currencies	
Spot assets	85,697	84,677	5,178	11	133	13,799	15,511	205,006
Spot liabilities	(81,164)	(76,248)	(1,910)	(2,020)	(2,320)	(13,483)	(12,058)	(189,203)
Forward purchases	360,180	335,351	82	2,149	2,399	-	1,938	702,099
Forward sales	(366,228)	(343,900)	(3,539)	-	(1)	-	(5,420)	(719,088)
Net option positions	(358)	351	1	1	2	-	3	-
Net long/(short) positions	(1,873)	231	(188)	141	213	316	(26)	(1,186)

	2022							Total
	US\$	Chinese Renminbi	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Other currencies	
Spot assets	90,216	76,597	5,425	576	89	13,605	8,989	195,497
Spot liabilities	(80,408)	(72,465)	(6,275)	(483)	(2,224)	(13,575)	(8,531)	(183,961)
Forward purchases	231,471	215,228	1,097	-	2,224	-	4,674	454,694
Forward sales	(242,808)	(218,535)	(161)	(3)	(23)	-	(5,324)	(466,854)
Net option positions	(43)	43	-	-	-	-	-	-
Net long/(short) positions	(1,572)	868	86	90	66	30	(192)	(624)

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

33. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(iii) **Currency risk** *(Continued)*

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and includes structural assets or liabilities as follows:

- investments in overseas subsidiaries and related companies

	2023				2022			
	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	3,806	8,995	1,531	14,332	3,643	8,507	1,529	13,679

(iv) **Equity risk**

The Group's equities exposures in 2023 and 2022 are mainly in long-term equity investments which are reported as "Financial assets measured at fair value through other comprehensive income" set out in note 15 separately. These are subject to risk management control procedures and other market risk regimes.

(d) **Operational risk management and & Information Security and Digital Risk Management**

(i) **Operational risk management**

Operational risk is the risk of loss caused by failures in internal processes, systems, poor management, human error or external events. This risk is inherent in all banking products, activities, processes and systems. It covers various non-financial risks including fraud; money laundering, terrorism financing and sanctions risk; third-party risk; physical and people security risk; conduct risk; business continuity risk; unauthorized trading risk and regulatory, legal and reputational risk.

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(d) **Operational risk management and & Information Security and Digital Risk Management** *(Continued)*

(i) **Operational risk management** *(Continued)*

Operational Risk Management Approach

We recognize the heightened risk of business disruptions arising from operational failures and the importance of strengthening our operational resiliency. We continue to anticipate and prevent potential operational events through robust risk management practices.

Our operational risk management framework sets out our approach to managing and operational risks arising from the Group's business activities and operations. The includes regular review of our operational risk profile, comprising operational events, key risk indicators, material issues and trends. Senior Management receive regular updates on operational risk profile and an annual assurance report assessing the adequacy and effectiveness of our internal control and risk management systems.

In addition, the operational risk management framework is supported by various programmes that ensure preparedness and, minimise the impact of any adverse event through a timely response, recovery, and adaptability, thus ensuring the continued provision of essential services.

(ii) **Information Security and Digital Risk Management**

Information security and digital risk is a business risk that comprises the risk domains of information, cyber and technology risks. Information risk is the risk of compromising confidentiality, integrity and/or availability of information (in physical or digital form). Digital risk includes cyber and technology risks. Cyber risk is the risk arising from malicious acts perpetrated by threat actors. Technology risk is the risk of disruption, failure or irregularity in essential financial services due to the use of information and communication technologies. Effective management of information security and digital risk is critical to minimizing any impact on our customers and any financial, operational, reputational, legal and/or regulatory impact on the Group.

33. MANAGEMENT OF RISKS *(Continued)*

(d) Operational risk management and Information Security and Digital Risk Management *(Continued)*

(ii) Information Security and Digital Risk Management *(Continued)*

Information Security and Digital Risk Management Approach

Robust management of information security and digital risks remain a key focus in view of the Bank's continued digitalisation efforts and the evolving cyber threat landscape, further exacerbated by factors such as adoption of new technology by threat actors (e.g. using generative AI to develop more realistic phishing emails) and geopolitical conflicts (e.g. possible associated cyber-attacks). To achieve resilience for the Group, our information security and digital risk framework sets out a comprehensive approach towards governing and managing information security and digital risks. This includes regular review of key risk areas, considering other factors such as incidents, regulatory expectations and emerging risks, to facilitate the prioritisation of risk management activities including risk monitoring and risk reporting (e.g. group-wide risk profiles, related key trends and significant incidents) to Senior Management and the Board.

(e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital ratios. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost. The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to ensure the Group's capital adequacy in relation to respective risk, taking into account its strategic focus and business plan.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by overseas regulators, they are required to maintain minimum capital according to their local regulators' requirements. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the years ended 31st December, 2023 and 2022 and are well above the minimum required ratios set by the HKMA. The information is disclosed in the Bank's Regulatory Disclosure.

The capital ratios at 31st December, 2023 are computed on a consolidated basis including 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 ("the Capital Rules").

Notes to the Consolidated Financial Statements

33. MANAGEMENT OF RISKS *(Continued)*

(f) Transfers of financial assets

At 31st December, 2023, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK\$8,299 million (2022: HK\$3,551 million) which are subject to simultaneous agreements (“repurchase agreements”) to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities sold under repurchase agreements by nature are as follows:

	2023	2022
Trading assets	2,783	813
Financial assets measured at fair value through other comprehensive income	5,516	2,738
	8,299	3,551

The consideration received under these repurchase agreements for the Group totaling HK\$7,855 million (2022: HK\$3,449 million) was reported as “Deposits and balances of banks” at 31st December, 2023 and 31st December, 2022. The details are as follows:

	2023	2022
Deposits and balances of banks	7,835	3,449
Deposit from customers	20	–
	7,855	3,449

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as “collateral” for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

At 31st December, 2023 and 31st December, 2022, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

34. STAFF BENEFITS

(a) Retirement schemes

	2023	2022 (restated)
Retirement benefit costs (note 5(g))	208	191

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme (“the ORSO Scheme”) which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes (“the MPF Schemes”) established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the statement of profit or loss as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer’s voluntary contributions being vested fully.

(b) Equity compensation benefits

(i) Share Option Scheme

The Group has ceased granting share options under OCBC Share Option Scheme 2001 (“2001 Scheme”) effective from financial year 2018 remuneration. Share options granted in prior years continue to be outstanding until the options lapse or are exercised by the recipients. 2001 Scheme was implemented in 2001 and was extended for another 10 years from 2011 to 2021. Executives of the Group ranked Manager and above and non-executive directors of the Group are eligible to participate in this scheme. OCBC will either issue new shares or transfer treasury shares to the participants upon the exercise of their options. The acquisition prices for these grants were equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over the five consecutive trading days immediately prior to the respective dates of grant.

Notes to the Consolidated Financial Statements

34. STAFF BENEFITS *(Continued)*

(b) *Equity compensation benefits (Continued)*

(i) **Share Option Scheme** *(Continued)*

Movements in the number of options and fair value are as follows:

	2023		2022	
	Number of options	Average price (in Singapore \$)	Number of options	Average price (in Singapore \$)
At 1st January	1,915,862	1.2160	2,080,508	1.1939
Exercised during the year	(290,463)	0.9160	(161,805)	0.9172
Lapsed during the year	–	–	(2,841)	2.0469
At 31st December	1,625,399	1.2697	1,915,862	1.2161
Exercisable at the end of the year	1,625,399	1.2697	1,915,862	1.2161

At 31st December, 2023, the weighted average remaining contractual life of outstanding share options was 3.17 years (2022: 3.8 years). The aggregate outstanding number of options held by directors of the Bank was nil (2022: nil). The accounting treatment of share-based compensation plan is set out in note 2(v).

(ii) **Employee Share Purchase Plan**

The OCBC Employee Share Purchase Plan (“ESP Plan”), which was implemented in 2004, was extended for another 10 years from 2014 to 2024, with the approval of shareholders. Employees of the Group who have attained the age of 21 years and been employed for not less than six months are eligible to participate in the ESP Plan. In June 2022, the Bank launched the offering of ESP Plan for the eligible employees of the Group, which commenced on 1st July, 2022 and expire on 30th June, 2023. Under the offering, the Bank granted right to acquire 544,178 (2022: 490,494) ordinary shares in the OCBC pursuant to the ESP Plan. The acquisition price is equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over five consecutive trading days immediately preceding the price fixing date. The fair value of the rights is determined using the binominal valuation model. Significant inputs to the valuation model are set out below:

	2023	2022
Acquisition price (in Singapore \$)	12.47	12.07
Share price (in Singapore \$)	12.94	12.24
Expected volatility based on historical volatility as of acceptance date (%)	12.97	16.51
Risk-free rate based on 2-year swap rate (%)	–	2.45
Singapore government bond yields (%)	3.36	–
Expected dividend yield (%)	4.91	4.05

34. STAFF BENEFITS *(Continued)*

(b) **Equity compensation benefits** *(Continued)*

(ii) **Employee Share Purchase Plan** *(Continued)*

Movements in the number of acquisition rights of the ESP Plan are as follows:

	2023		2022	
	Number of acquisition rights	Average price (in Singapore \$)	Number of acquisition rights	Average price (in Singapore \$)
At 1st January	714,031	12.073	765,777	10.275
Exercised and conversion upon expiry	(244,544)	11.624	(420,583)	9.064
Forfeited	(122,786)	12.250	(121,657)	11.143
Subscription	544,178	12.470	490,494	12.070
At 31st December	890,879	12.414	714,031	12.073

At 31st December, 2023, the weighted average remaining contractual life of outstanding acquisition rights was 1.0 year (2022: 1.0 year). An executive director of the Bank did not hold any acquisition rights in 2023 and 2022. The accounting treatment of share-based compensation plan is set out in note 2(v).

(iii) **OCBC Deferred Share Plan**

OCBC implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award programme extended to executives of the Group at the absolute discretion of the Remuneration Committee. Among the ordinary shares granted, 50% vests at 2 years from the date of grant and the remaining 50% vests at 3 years from the date of grant.

Awards of an aggregate of 790,927 (2022: 528,108) ordinary shares of OCBC (including awards of 287,200 (2022: 38,003) ordinary shares of OCBC granted to directors of the Group) were granted by OCBC to eligible executives under the DSP during the financial year ended 31st December, 2023. The fair value of the shares at grant date was Singapore \$9.9 million (2022: Singapore \$6.1 million). In addition, awards are adjusted following the declarations of final dividend and interim dividend, if any.

The accounting treatment of share-based compensation plan is set out in note 2(v).

Notes to the Consolidated Financial Statements

35. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) *Financial instruments measured at fair value*

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at FVTPL, and financial instruments measured at FVOCI.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values at the end of the reporting period on a recurring basis using the following fair value hierarchy as defined in HKFRS 13, *Fair value measurement* that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and for which unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value *(Continued)*

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on “no-arbitrage” principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. “Not observable” does not mean there is absolutely no market data available, but rather that there is little or no current market data available from which to determine the level at which an arm’s length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. Availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models as inputs to a fair value measurement. These models are usually developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, the ultimate responsibility for the determination of fair values lies with Finance Division – Treasury Financial Control and Advisory Team. Treasury Financial Control and Advisory Team establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

Notes to the Consolidated Financial Statements

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

The table below analyses financial instruments measured at fair value at the reporting date according to the level in the fair value hierarchy into which they are categorised:

Recurring fair value measurements	2023			Total
	Level 1	Level 2	Level 3	
Assets				
Trading assets				
– Treasury bills	3,175	–	–	3,175
– Other debt securities	33	–	–	33
– Derivative financial instruments held for trading	10	8,715	368	9,093
	3,218	8,715	368	12,301
Advances to customers and other accounts				
– Derivative financial instruments held for hedging	–	457	–	457
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	14,744	4,565	–	19,309
– Certificates of deposit held	2,625	17,495	–	20,120
– Other debt securities	35,334	5,772	–	41,106
– Equity securities	–	–	1,910	1,910
	52,703	27,832	1,910	82,445
	55,921	37,004	2,278	95,203
Liabilities				
Trading liabilities				
– Derivative financial instruments held for trading	8	9,033	367	9,408
Other accounts and provisions				
– Derivative financial instruments held for hedging	–	240	–	240
	8	9,273	367	9,648

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

Recurring fair value measurements	Level 1	2022		Total
		Level 2	Level 3	
Assets				
Trading assets				
– Treasury bills	11	–	–	11
– Other debt securities	1,046	–	–	1,046
– Derivative financial instruments held for trading	3	8,761	–	8,764
	1,060	8,761	–	9,821
Advances to customers and other accounts				
– Derivative financial instruments held for hedging	1	604	–	605
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	20,149	4,268	–	24,417
– Certificates of deposit held	4,009	17,145	–	21,154
– Other debt securities	29,190	4,437	–	33,627
– Equity securities	–	–	2,616	2,616
	53,348	25,850	2,616	81,814
	54,409	35,215	2,616	92,240
Liabilities				
Trading liabilities				
– Derivative financial instruments held for trading	2	8,681	2	8,685
Other accounts and provisions				
– Derivative financial instruments held for hedging	–	292	–	292
	2	8,973	2	8,977

During the year ended 31st December, 2023, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3 (2022: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Consolidated Financial Statements

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2023		
	Financial assets measured at fair value through other comprehensive income – Equity securities	Net fair values of derivative financial instrument held for trading	Total
Assets/(liabilities)			
At 1st January	2,616	(2)	2,614
Changes in fair value recognised in the consolidated income statement	–	3	3
Changes in fair value recognised in the consolidated statement of other comprehensive income	(706)	–	(706)
At 31st December	1,910	1	1,911
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	(706)	–	(706)
Total gains or losses for the year included in the consolidated statement of profit or loss for assets held at the reporting date – Net trading income	–	3	3

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(Continued)*

	2022		Total
	Financial assets measured at fair value through other comprehensive income – Equity securities	Net fair values of derivative financial instrument held for trading	
Assets/(liabilities)			
At 1st January	2,505	1	2,506
Changes in fair value recognised in the consolidated income statement	–	(3)	(3)
Changes in fair value recognised in the consolidated statement of other comprehensive income	111	–	111
At 31st December	2,616	(2)	2,614
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	111	–	111
Total gains or losses for the year included in the consolidated statement of profit or loss for assets held at the reporting date – Net trading income	–	(3)	(3)

Notes to the Consolidated Financial Statements

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) **Valuation of financial instruments with significant unobservable inputs** *(Continued)*

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range
Unlisted equity securities measured at fair value through other comprehensive income	Discounted cash flow model	Discount rates	7.85%-16.09% (2022: 5.37%-15.80%)
		Terminal growth rate	3% (2022: 3%)
	Market approach	P/E ratios	N/A (2022: 31.97x)
		Marketability discount	20% (2022: 15.00%-20.00%)
		Enterprise value/EBITDA ratios	5.87x (2022: 4.60x-24.09x)
		P/B ratios	1.68x (2022: 1.73x)
		Indicative price from market information	N/A (2022: N/A)

The fair value of unlisted financial assets measured at fair value through other comprehensive income is determined using the discounted cash flow and market approach.

In response to a recent market activity announcement by an independent third party of an unlisted equity security held by the Group, the Group revised its valuation technique for its holding of the unlisted equity security using the market approach based on the indicative pricing from the announcement. Prior to the revision, the unlisted equity security was valued based on P/E ratios and enterprise value/EBITDA ratios of a selected set of comparable companies.

Other than disclosed above, there were no changes in valuation techniques of other unlisted equity securities held by the Group during the year.

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) **Financial instruments measured at fair value** *(Continued)*

(i) **Valuation of financial instruments with significant unobservable inputs** *(Continued)*

Information about significant unobservable inputs in Level 3 valuations (Continued)

On account of a relevant new accounting standard with effective from 1 January 2023, the Group changed the selected set of comparable companies used for deriving the significant unobservable inputs for valuations of certain unlisted equity securities using market approach. There were no changes in the enterprise value/EBITDA ratios and P/B ratios used as significant unobservable inputs applied in this valuation technique during the year.

For discounted cash flow model, the significant unobservable inputs used in the fair value measurement are forecasted cash flows, discount rates and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate. For market approach, the significant unobservable inputs used in the fair value measurement are P/E ratios, marketability discount, enterprise value/EBITDA ratios, P/B ratios and indicative price from market information.

The fair value of foreign exchange time options held for trading is determined based on similar methodology as that of derivative financial instruments classified as level 2 in the fair value hierarchy with significant unobservable inputs being the forecasted optimum rate of a derivative contract adopted for the fair value measurement of the optionality component to exercise partial take-up right of the derivative contract.

The fair value of equity derivatives for trading is determined based on similar methodology as that of derivative financial instruments classified as level 2 in the fair value hierarchy with significant unobservable inputs being equity-equity correlation, equity-foreign exchange correlation and price of private funds.

Notes to the Consolidated Financial Statements

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(ii) **Effect of changes in significant non-observable assumptions to reasonably possible alternative assumptions**

The fair value of financial instruments is, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in significant non-observable assumptions to reasonably possible alternative assumptions. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	2023			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading assets				
– Derivative financial instruments held for trading purpose	37	(37)	–	–
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	191	(191)
	2022			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading assets				
– Derivative financial instruments held for trading purpose	–	–	–	–
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	262	(262)

35. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31st December, 2023 and 31st December, 2022. The level of fair value hierarchy is disclosed below:

	Carrying value	Fair value	2023		
			Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	3,184	3,184	–	3,184	–
Fixed rate note issued at amortised cost	3,865	3,861	–	3,861	–
			2022		
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	8,243	8,242	–	8,242	–
Fixed rate note issued at amortised cost	3,368	3,364	–	3,364	–

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not presented above.

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.
- (ii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from their carrying amount.
- (iv) The fair value of unquoted equity investments is estimated, if possible, using different valuation techniques and unobservable inputs to reflect the specific circumstances of the issuers (note 35(a)(i)).

Notes to the Consolidated Financial Statements

36. BANK-LEVEL STATEMENT OF FINANCIAL POSITION

	2023	2022
ASSETS		
Cash and balances with banks and central banks	3,825	3,106
Placements with banks, central banks and other financial institutions	2,547	744
Amounts due from ultimate holding company and fellow subsidiaries	11,329	12,668
Amounts due from subsidiaries	22,043	22,622
Trading assets	245	412
Advances to customers and other accounts	123,103	123,644
Financial assets measured at fair value through other comprehensive income	58,454	60,263
Debt securities measured at amortised cost	10,619	–
Investments in subsidiaries	8,248	8,251
Investments in associated companies	332	332
Fixed assets		
– Investment properties	8	102
– Bank premises and equipment	3,860	3,855
Goodwill	847	847
Total assets	245,460	236,846
EQUITY AND LIABILITIES		
Deposits and balances of banks	1,132	2,402
Amounts due to ultimate holding company and fellow subsidiaries	3,513	6,238
Amounts due to subsidiaries	4,112	3,720
Deposits from customers	197,099	182,254
Certificates of deposit issued	200	4,690
Trading liabilities	544	361
Lease liabilities	26	36
Current tax payable	126	151
Deferred tax liabilities	341	242
Other accounts and provisions	3,019	2,364
Total liabilities	210,112	202,458
Share capital	7,308	7,308
Reserves	25,040	24,080
Perpetual capital securities issued	3,000	3,000
Total equity	35,348	34,388
Total equity and liabilities	245,460	236,846

Approved and authorised for issue by the Board of Directors on 12th April, 2024

KHOO Cheng Hoe Andrew
WANG Ke

Chairman
Executive Director and Chief Executive Officer

37. ULTIMATE CONTROLLING PARTY

At 31st December, 2023, the directors consider the ultimate controlling party of the Bank to be Oversea-Chinese Banking Corporation Limited, which is incorporated and listed in Singapore.

38. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Board recommended a final dividend. Further details are disclosed in note 8(a).

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2023

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31st December, 2023 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

40. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 12th April, 2024.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Unaudited Supplementary Financial Information

(Expressed in millions of Hong Kong dollars unless otherwise stated)

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

(A) CAPITAL AND LIQUIDITY RATIOS

(i) Capital ratios

	2023	2022
Common Equity Tier 1 capital ratio as at 31st December	19.0%	16.3%
Tier 1 capital ratio as at 31st December	20.5%	17.6%
Total capital ratio as at 31st December	21.6%	19.0%
Capital conservation buffer ratio	2.500%	2.500%
Countercyclical capital buffer ratio	0.538%	0.527%
Common Equity Tier 1 capital	37,430	36,968
Tier 1 capital	40,430	39,968
Total capital	42,515	43,041
Risk weighted assets	196,763	226,569

As mentioned in note 33(e) of “Notes to the consolidated financial statements” on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

The capital ratios are computed on a consolidated basis including 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.

In view of the Capital Rules, the Group has adopted the “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the “internal rating-based approach” to calculate its exposure to credit risk from 31st March, 2023, with regulatory approved exempted portfolios remaining on the “standardised (credit risk) approach” and adopted the “standardised (credit risk) approach” as of 31st December, 2022.

(A) CAPITAL AND LIQUIDITY RATIOS *(Continued)*

(i) **Capital ratios** *(Continued)*

In calculating the capital ratios of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation. These are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

Subsidiaries	Principal activities	2023		2022	
		Total assets	Total equity	Total assets	Total equity
Chekiang First Bank (Nominees) Limited	Inactive/Nominee Services	-	-	-	-
Chekiang First Bank (Trustees) Limited	Dissolved in 2023	#	#	4	4
OCBC Futures Investment (Hong Kong) Limited	Futures Trading	21	17	17	17
OCBC Nominees Services (Hong Kong) Limited	Inactive/Nominee Services	-	-	-	-
OCBC Trustee (Hong Kong) Limited	Inactive	4	4	4	4
OCBC Insurance Agency (Hong Kong) Limited	Insurance Agency	31	31	157	154
OCBC Insurance Brokers (Hong Kong) Limited	Insurance Broker	148	101	208	181
OCBC Securities Brokerage (Hong Kong) Limited	Securities Dealing	492	354	488	358

Chekiang First Bank (Trustees) Limited was dissolved in 2023.

At 31st December, 2023, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

There are no relevant capital shortfalls in any of the Group's subsidiaries at 31st December, 2023 (2022: nil) which are not included in the Group's consolidation for regulatory purposes.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

Unaudited Supplementary Financial Information

(A) CAPITAL AND LIQUIDITY RATIOS *(Continued)*

(ii) **Average liquidity maintenance ratio and core funding ratio**

	2023	2022
Average liquidity maintenance ratio for the year	48.5%	39.3%
Average core funding ratio for the year	153.0%	141.8%

The average liquidity maintenance ratio and core funding ratio for 2023 include the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation has been agreed with the Hong Kong Monetary Authority (“HKMA”). Liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

(B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	2023					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit losses (Stage 3) on advances to customers	Expected credit losses (Stages 1 and 2) on advances to customers	Expected credit losses written off during the year
Hong Kong	128,166	1,680	787	171	531	33
Macau	18,645	112	28	3	25	1
Mainland China	51,198	144	141	29	289	223
Others	4,371	-	-	-	40	-
	202,380	1,936	956	203	885	257

	2022					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit losses (Stage 3) on advances to customers	Expected credit losses (Stages 1 and 2) on advances to customers	Expected credit losses written off during the year
Hong Kong	134,254	1,951	158	75	399	72
Macau	18,305	89	28	5	53	3
Mainland China	45,351	776	768	182	255	91
Others	2,352	27	27	5	16	-
	200,262	2,843	981	267	723	166

(C) FURTHER ANALYSIS OF ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

The following information concerning further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	2023					
	Gross advances to customers	Overdue advances to customers for over three months	Expected credit losses (Stage 3) on advances to customers	Expected credit losses (Stages 1 and 2) on advances to customers	Expected credit losses charged/ (credited) to consolidated statement of profit or loss during the year	Expected credit losses written off during the year
Property investment	29,742	260	83	167	127	–
Advances for the purchase of other residential properties	32,900	51	1	6	(1)	–
Advances for use outside Hong Kong						
– Mainland China	43,524	142	29	231	90	209
– Macau	18,442	27	3	28	(28)	1
	2022					
	Gross advances to customers	Overdue advances to customers for over three months	Expected credit losses (Stage 3) on advances to customers	Expected credit losses (Stages 1 and 2) on advances to customers	Expected credit losses charged to consolidated statement of profit or loss during the year	Expected credit losses written off during the year
Property investment	31,183	1	–	122	100	–
Advances for the purchase of other residential properties	34,969	57	–	8	4	–
Advances for use outside Hong Kong						
– Mainland China	41,018	747	163	201	253	18
– Macau	18,850	26	5	55	21	3

Unaudited Supplementary Financial Information

(D) OVERDUE AND RESCHEDULED ASSETS

(i) *Overdue and rescheduled advances to customers*

	2023		2022	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	727	0.36	549	0.27
– 1 year or less but over 6 months	86	0.04	66	0.03
– Over 1 year	143	0.07	366	0.18
	956	0.47	981	0.48
Covered portion of overdue advances	915		784	
Uncovered portion of overdue advances	41		197	
	956		981	
Current market values of collateral held against covered portion of overdue advances	1,293		1,706	
Expected credit losses (Stage 3) made on overdue advances	127		239	

Collateral held with respect to overdue advances to customers are mainly properties and vehicles.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

(D) OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(i) **Overdue and rescheduled advances to customers** *(Continued)*

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2023		2022	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	51	0.03	3	–

All rescheduled advances to customers are impaired at 31st December, 2023 and 31st December, 2022.

There were no advances to banks which were overdue nor rescheduled at 31st December, 2023 and 31st December, 2022.

(ii) **Other overdue assets**

There are no debt securities and other assets which are overdue at 31st December, 2023 (2022: nil).

(E) DISCLOSURE REQUIREMENTS UNDER THE BANKING (DISCLOSURE) RULES

(i) **Corporate Governance**

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA. The Group has established a number of board committees under the Board of Directors including Audit Committee, Nomination Committee, Risk Management Committee and Remuneration Committee. The compositions and functions of these committees are explained in the “Corporate Governance Report”.

(ii)

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 12th April, 2024 under “Regulatory Disclosure” on the website of the Bank (www.ocbc.com.hk).

List of Branches

OCBC BANK (HONG KONG) LIMITED

HONG KONG ISLAND

Main Branch	OCBC Centre, 161 Queen's Road Central
Causeway Bay Branch	443–445 Hennessy Road
Central Branch	G/F, Henley Building, 5 Queen's Road Central
Gold & Silver Exchange Branch	1/F, 12–18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15–17 King Kwong Street, Happy Valley
Johnston Road Branch	131–133 Johnston Road, Wan Chai
North Point Branch	441–443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
Western Branch	139–141 Des Voeux Road West, Sai Ying Pun
Auto & Equipment Finance	
Main Office	5/F, Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan

KOWLOON

Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Hoi Yuen Road Branch	Unit 01, 22/F, Crocodile Centre, 79 Hoi Yuen Road, Kwun Tong
Kowloon Branch	298 Nathan Road, Jordan
Mei Foo Branch	Shop N52, G/F., Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
San Po Kong Branch	G/F, 66–70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Tokwawan Branch	Shop Nos. 105-106 & 116-117, G/F, 237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui Premier Banking Centre	Shop G3–5, G/F, East Ocean Centre, 98 Granville Road, Tsimshatsui
Whampoa Estate Branch	8–10 Tak Man Street, Whampoa Estate, Hunghom
Yaumati Branch	507 Nathan Road, Yaumati

NEW TERRITORIES

Tai Po Branch	Shop F, 12–26 Tai Wing Lane, Tai Po
Tai Wai Branch	32–34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022–23, Level 1, MCP Central, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shops 1&2, G/F, Man Cheung Mansion, 52–62 Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	Shop 1–3, G/F, 40–54 Castle Peak Road, Yuen Long

MACAU

OCBC Bank (Macau) Limited

Main Branch	241 Avenida de Almeida Ribeiro
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19–21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75–79 Rua Almirante Sergio
Flower City Branch	356–366, Rua de Evora, Edif. Lei Fung, Taipa
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
Fai Chi Kei Branch	Avenida do Conselheiro Borja Nos. 309–315, Mayfair Garden Bloco 5 D-R/C

List of Branches

MAINLAND CHINA

OCBC Bank Limited

SHANGHAI

Main Branch	OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Branch	Unit 107, Unit 307, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Century Square Sub-branch	Unit 102, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai 200135

BEIJING

Beijing Branch	Units 2809–2818, 28/F, Tower B, Gemdale Plaza, No. 91, Jianguo Road, Chaoyang District, Beijing 100022
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CHENGDU

Chengdu Branch	Unit 1, 8, 9 and 10, 31F, No.2 Office Building, Chengdu IFS, No. 1, Hong Xing San Duan Road, Jin Jiang District, Chengdu 610021
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TIANJIN

Tianjin Branch	Unit 3805, 3806, 38/F, Metropolitan Tower, Southwest of the Intersection of Nanjing Road and Changsha Road, Heping District, Tianjin 300051
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XIAMEN

Xiamen Branch	2F-3F, No.2 Zhongshan Road, Siming District, Xiamen 361001
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QINGDAO

Qingdao Branch	Unit 2402–2407, No. 9 Middle Hong Kong Road, Shinan District, Qingdao 266071
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CHONGQING

Chongqing Branch	Unit 1–3, 48 Floor, Yingli International Financial Center, No.28, Minquan Road, Yuzhong District, Chongqing 400010
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MAINLAND CHINA

OCBC Bank Limited (Continued)

SHAOXING

Shaoxing Branch Room 1801 & 1802, Building 1 Zhong Jin Plaza, No.666 North Zhongxing Road, Shaoxing, Zhejiang Province 312000

SUZHOU

Suzhou Branch Unit 1–3,12th Floor, No.2 Building, Jinghope Plaza, No.88 Huachi Street, SIP, Suzhou 215027

WUHAN

Wuhan Branch Unit 3004A, 3004B1, 3005A, 3005B, Tiandi Tower A1, No 1505, Zhongshan Avenue, Jiang An District, Wuhan 430010

SHENZHEN

Shenzhen Branch 5/F and Unit 02 M/F, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen 518008

GUANGZHOU

Guangzhou Branch Room 2504–2509, Goldlion Digital Network Centre, 138 Tiyu Road East, Guangzhou 510620

Guangzhou Zhujiang New Town Sub-branch Unit 903–904, He Jing International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou 510623

ZHUHAI

Zhuhai Branch Rooms 1501 & 1508, NO5 Yanlord Marina Center Tower, No. 1 Qinglv South Road, Xiangzhou District, Zhuhai 519020

FOSHAN

Foshan Sub-Branch Room 2001, Mingri Plaza I, Xingui Road, Daliang, Shunde District, Foshan 528300

List of Branches

OCBC CREDIT (HONG KONG) LIMITED

HONG KONG ISLAND

Main Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai
Central Branch	Unit 1202, 12/F., Wing On Centre, 111 Connaught Road Central
North Point Branch	Rooms 1509–10, 15/F., Olympia Plaza, 255 King's Road, North Point
Wanchai Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai

Revolving Credit Centre 14/F., Tai Yau Building, 181 Johnston Road, Wanchai

Mortgage Loan Centre 14/F., Tai Yau Building, 181 Johnston Road, Wanchai

KOWLOON

Kwun Tong Branch	Unit 1104, 11/F., Kwun Tong View, 410 Kwun Tong Road
Prince Edward Branch	Unit Nos. 1114–1116, 11/F., Pioneer Centre, 750 Nathan Road
Tsimshatsui Branch	Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsim Sha Tsui

NEW TERRITORIES

Kwai Fong Branch	Units 1909–1911, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Tsuen Wan Branch	Unit 1521, 15/F., Nan Fung Centre, 264–298 Castle Peak Road, Tsuen Wan
Tai Po Branch	G/F., 7 Kwong Fuk Road, Tai Po



Registered Office: OCBC Centre, 161 Queen's Road Central, Hong Kong

