



SHANGHAI COMMERCIAL BANK

2023

ANNUAL REPORT





Welcome to Shanghai Commercial Bank Limited's website



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# CORPORATE PROFILE

## Our Vision

To be a trusted bank of choice for customers in Greater China, served by our staff capable of delivering comprehensive one-stop personalized service, supported by distinctive commercial and international banking capabilities, and innovative digital platform, for sustainable development.

## Our Mission

- Support business growth through value creation to our customers, shareholders, contribute to the community through sustainable development
- Cherish the values of our people with rewarding career opportunities and development
- Build a strong network with our partners to develop long term relationship

## Our Values



### Proactive

- Take initiative with can-do attitude, be innovative, embrace change and make continuous improvement



### Integrity

- Adhere to the highest ethical standards, discipline and righteous behavior



### Respect

- Establish mutual trust and respect with colleagues and customers



### Professionalism

- Deliver high quality services that cater to customer needs, and commit to continuous learning and enhancement of expertise



### Teamwork

- Work collaboratively across teams with mutual support to achieve common goal



### Accountability

- Take ownership in work and demonstrate commitment towards achieving extraordinary performance and contributing to sustainable development



### Leadership

- Direct, inspire, engage and motivate staff to nurture future leaders

## CORPORATE PROFILE (CONTINUED)

Shanghai Commercial Bank (the “Bank”) is a renowned local Chinese bank in Hong Kong building on its core strengths and holding a niche market position in corporate and Small-and-Medium sized Enterprises (“SMEs”), and high-net-worth individuals.

“Serve the Community” as motto and “For Personalized Service” as principle, the Bank seeks to meeting customers’ needs with a comprehensive range of banking products and services, including loans, deposits, trade finance, remittances, securities trading, investment and wealth management, life and general insurance products, treasury products, foreign exchange, credit cards, international banking, internet and mobile banking, through teams of banking professionals across the global network of over 50 offices and branches in Hong Kong, Mainland China, United States and United Kingdom.

For over 20 years, the Bank has entered into a strategic alliance with Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan. Together we have created the “Three Shanghai Banks, All Caring for You” (「三地上銀，一心為您」) branding, delivering one-stop, cross-strait banking services through a broad footprint comprising of more than 400 outlets around the globe.

Over the years, the Bank has successfully executed on its strategic plans and developed different brands.

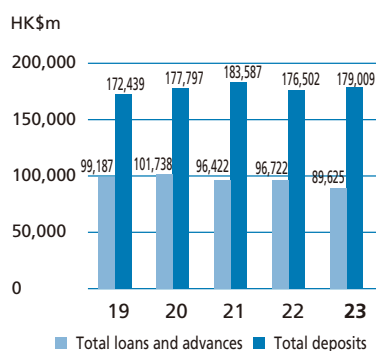
- “SMART Banking” offers privileged banking services and tailor-made investment and wealth management solutions to our premium customers
- “Green Channel” leverages our tri-bank strategic alliance to provide customers with quality one-stop, cross-strait banking services and global business support
- “Shacom Bank” and mobile banking for customers to enjoy e-Banking services anytime, anywhere
- “Shacom Pay” performs real-time interbank transfers and payments through the Faster Payment System
- “Shacom Stock” allows customers to trade securities on the go

The Bank has been rated A1 by Moody’s and A- by Fitch.

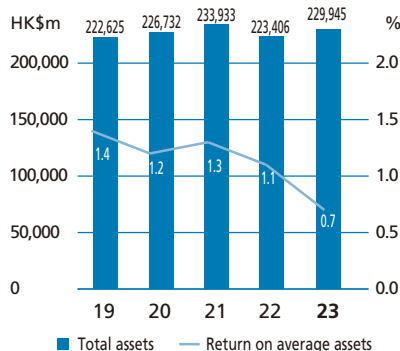
# FIVE-YEAR FINANCIAL SUMMARY

	2023	2022	2021	2020	2019
		(restated)			
<b>FOR THE YEAR (IN HK\$ MILLION)</b>					
Net interest income	4,396	3,887	3,653	3,552	3,977
Other operating income	1,211	1,265	1,555	1,518	1,456
Operating expenses	1,850	1,786	1,697	1,621	1,649
Operating profit	2,100	3,089	3,482	3,323	3,723
Profit before other comprehensive income attributable to equity holders	1,562	2,417	2,900	2,736	3,016
Dividend	–	275	313	313	940
<b>AT YEAR END (IN HK\$ MILLION)</b>					
Shareholders' funds	36,001	33,433	34,125	32,403	30,538
Total assets	229,945	223,406	233,933	226,732	222,625
Total deposits	179,009	176,502	183,587	177,797	172,439
Total loans and advances	89,625	96,722	96,422	101,738	99,187
<b>FINANCIAL RATIOS (IN PERCENTAGE %)</b>					
Capital adequacy ratio	26.6	22.0	21.5	20.1	19.5
Average liquidity maintenance ratio	59.9	55.1	60.5	56.5	53.3
Loan to deposit ratio	50.1	54.8	52.5	57.2	57.5
Dividend payout ratio	–	11.4	10.8	11.4	31.2
Return on average assets	0.7	1.1	1.3	1.2	1.4

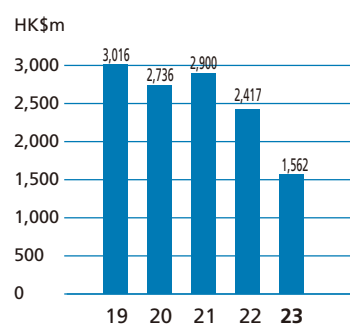
**Total loans and advances and total deposits**



**Total assets and return on average assets**



**Profit before other comprehensive income attributable to equity holders**



# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy-Third Annual General Meeting of the Members of the Bank will be held at its Registered Office, Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong on Wednesday, 24 April 2024 at 9:00 a.m. to transact the following business:

- (1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditor for the year ended 31 December 2023;
- (2) To declare Dividend in respect of the year 2023 (if any);
- (3) To re-elect Directors;
- (4) To approve the payment of Directors' fees for the year ended 31 December 2023;
- (5) To re-appoint Auditor and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Wednesday, 17 April 2024 to Wednesday, 24 April 2024, both days inclusive.

By Order of the Board  
**May Yuen-ling KWOK**  
Corporate Secretary

Hong Kong, 24 January 2024

# BOARD OF DIRECTORS

## CHAIRMAN

Mr. Stephen Ching Yen LEE  
Non-executive Director

## EXECUTIVE DIRECTOR

Mr. David Sek-chi KWOK, *Fellow CB*  
Deputy Chairman, Managing Director & Chief Executive

## NON-EXECUTIVE DIRECTORS

Mr. JIN Yu  
Mr. John Con-sing YUNG  
Ms. Maria Pui Man KIANG  
Mr. YE Jun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Johnson Mou Daid CHA  
Mr. Gordon Che Keung KWONG, *FCA*  
Mr. E. Michael FUNG  
Mr. Charles Chi Man MA  
Mr. Sunny Yiu Tong CHEUNG, *MH*



# MANAGEMENT

## SENIOR EXECUTIVES

Chief Executive	Mr. David Sek-chi KWOK
Deputy Chief Executives	Mr. Mong-ting CHONG Mr. Ryan Yuk-lung FUNG Mr. Burton Chi-shan CHENG
Senior Management	Ms. Wendy Li-chien WENG Mr. Timothy Wai-tai LAW Mr. Jerome Chee-keong GOH Ms. Feng TIAN Ms. Jenny Chui-yeung CHAU Mr. Stanley Chwan-yeu ZAU Ms. Jaffrey So-ching MA
Chief Auditor	Ms. Mandy Ming-wai CHAN
Corporate Secretary	Ms. May Yuen-ling KWOK

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## OVERSEAS BRANCHES

London Branch	Mr. Jerome Chee-keong GOH
Los Angeles Branch	Ms. Justina SETO
New York Branch	Mr. Timothy Kam-tim CHAN
San Francisco Branch	Mr. Philip She-hoi LEE

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## MAINLAND BRANCHES

Shenzhen Branch	Mr. Dixon Kam-hung IU
Shanghai Branch	Mr. Bruce Fu-guo SUN

# BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

## DIRECTORS

### Mr. Stephen Ching Yen LEE



Aged 77. Chairman and Non-executive Director. Appointed a Director of the Bank in June 2004 and elected Chairman in April 2016. Chairman and Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Taiwan, Managing Director of Great Malaysia Textile Investments Private Ltd., a Director of CapitaLand Group Pte Ltd. and Temasek Holdings (Private) Ltd. Chairman of Singapore Airlines Ltd. from 2006 to 2016 and a member of the Council of Presidential Advisers of Singapore from 2008 to 2020.

### Mr. David Sek-chi KWOK, Fellow CB



Aged 70. Managing Director and Chief Executive of the Bank since October 2007 and appointed Deputy Chairman in March 2020. Joined the Bank in October 1971 and appointed a Director in October 2001. Chairman of the Executive Committee of the Bank since November 2007. A Director of Bank of Shanghai Co., Ltd., Shanghai.

### Mr. Johnson Mou Daid CHA



Aged 72. Appointed a Director of the Bank in September 2001. Chairman of the Nomination and Remuneration Committee of the Bank since April 2021. Chairman of Hanison Construction Holdings Ltd., and C.M. Capital Advisors (HK) Ltd., as well as a Director of Mingly Corporation, HKR International Ltd. and Million Hope Industries Holdings Ltd. A board member of Qiu Shi Science & Technologies Foundation, a founding member of Moral Education Concern Group and a Co-opted External Member to the Finance Committee of the Council of The Hong Kong University of Science and Technology ("HKUST") and a member to the Court of HKUST.

### Mr. Gordon Che Keung KWONG, FCA



Aged 74. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. A fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. An Independent Non-executive Director of a number of locally-listed companies, including Chow Tai Fook Jewellery Group Ltd., FSE Lifestyle Services Ltd., Henderson Land Development Co. Ltd., Agile Group Holdings Ltd., and COSCO Shipping International (Hong Kong) Co. Ltd.

### Mr. E. Michael FUNG

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Aged 67. Appointed a Director of the Bank in December 2015. Chairman of the Risk Committee of the Bank since August 2017. Chairman and Principal of SouthBay Investment Advisors Ltd. An Independent Non-executive Director of Dickson Concepts (International) Ltd. as well as a member of Gleneagles Hong Kong Hospital Advisory Council, the Executive Committee of Hong Kong Arts Festival Society Limited and the Court of The Hong Kong University of Science and Technology. A member of the Financial Services Development Council, Hong Kong from January 2013 to January 2017.

### Mr. JIN Yu

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Aged 59. Appointed a Director of the Bank in January 2016. Chairman of Bank of Shanghai Co., Ltd., Shanghai. A Director of Shanghai United International Investment Ltd.

### Mr. John Con-sing YUNG

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Aged 55. Alternate Director of the Bank since March 2013 and appointed a Director of the Bank in May 2016. Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Taiwan. Chairman of Pafoong Insurance Company (Hong Kong) Ltd. and AMK Microfinance Institutions Plc. and Director of Nanyang Holdings Ltd.

### Ms. Maria Pui Man KIANG

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Aged 58. Appointed a Director of the Bank in October 2019. Solicitor of HKSAR and New South Wales, Australia. Associate General Counsel, Asia Pacific, Legal Department of Wells Fargo Bank N.A.

### Mr. Charles Chi Man MA

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Aged 76. Appointed a Director of the Bank in October 2019. Chairman of the Sustainability Committee of the Bank since April 2021. Consultant of mReferral Corporation (HK) Ltd. Former chief executive of China Construction Bank (Asia) Corporation Ltd., Macau Chinese Bank Ltd. and Bank of Shanghai (Hong Kong) Ltd.

### Mr. Sunny Yiu Tong CHEUNG, MH

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Aged 69. Appointed a Director of the Bank from July 2014 to December 2015. Re-appointed a Director of the Bank in March 2021. Chairman of the Digital Transformation Committee of the Bank since April 2021. Former Chief Executive Officer of Octopus Holdings Ltd. and Octopus Cards Ltd. An Independent Non-executive Director of TransUnion Credit Information Services Ltd., as well as a member of the Entrepreneurship Committee Advisory Group of CyberPort and the Campaign Committee of The Community Chest of Hong Kong.

### Mr. YE Jun

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Aged 51. Appointed a Director of the Bank in September 2021. Chairman of Shanghai United International Investment Ltd. and Sino-US United MetLife Insurance Co., Ltd. Director and General Manager of Shanghai Alliance Investment Ltd. A Director of Bank of Shanghai and Hua Hong Semiconductor Ltd.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT (CONTINUED)

### SENIOR EXECUTIVES

#### Mr. David Sek-chi KWOK

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(Biographical details are set out on page 8)

#### Mr. Mong-ting CHONG

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Aged 61. Deputy Chief Executive, Chief of Corporate Banking Group. Joined the Bank in October 2015.

#### Mr. Ryan Yuk-lung FUNG

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Aged 50. Deputy Chief Executive, Chief of Retail & Digital Strategy. Joined the Bank in May 2022.

#### Mr. Burton Chi-shan CHENG

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Aged 62. Deputy Chief Executive, Chief of Information Technology & Operations. Rejoined the Bank in August 1996.

#### Ms. Wendy Li-chien WENG

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Aged 54. Chief Financial Controller. Joined the Bank in May 2012.

#### Mr. Timothy Wai-tai LAW

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Aged 47. Acting Chief Risk Officer. Joined the Bank in May 2016.

#### Mr. Jerome Chee-keong GOH

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Aged 51. Manager of London Branch. Joined the Bank in November 2013.

#### Ms. Feng TIAN

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Aged 49. Chief Lending Officer, U.S. Branches. Joined the Bank in August 2018.

#### Ms. Jenny Chui-Yeung CHAU

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Aged 58. Co-Head of Treasury Division. Joined the Bank in June 2009.

#### Mr. Stanley Chwan-yeu ZAU

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Aged 58. Co-Head of Treasury Division. Joined the Bank in October 2020.

#### Ms. Jaffrey So-ching MA

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Aged 50. Head of Human Resources. Joined the Bank in October 2013.

#### Ms. Mandy Ming-wai CHAN

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Aged 50. Chief Auditor. Joined the Bank in June 2000.

#### Ms. May Yuen-ling KWOK

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Aged 53. Corporate Secretary. Joined the Bank in March 1994.

## Sustainability Development 推動可持續發展

The Bank has established a strategic partnership with Hong Kong Quality Assurance Agency (“HKQAA”) in providing green-related assessment and certification. The cooperation will foster further development of relevant products and services, which also assist customers with more productive solutions in transitioning to low-carbon economy.

本銀行與香港品質保證局合作，推動相關綠色產品開發和認證，並協助為企業客戶制定邁向綠色經濟轉型的有效商業方案。



Pioneering Award for  
ESG Disclosure Contribution  
ESG披露貢獻先鋒大獎



Pioneering Award for  
Climate Disclosure Contribution  
氣候披露貢獻先鋒大獎



Outstanding Award for  
Green and Sustainable Loan Facilitator  
傑出綠色和可持續貸款服務機構



## Awards and Recognitions 獎項與榮譽



**Best people-focused Chief Executive Award**  
最佳人才為本執行官大獎  
CTgoodjobs



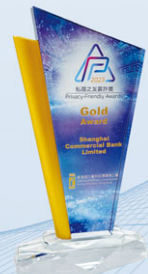
**Best ESG Award**  
最佳環境、社會及管治大獎

**Best Graduate and Management Trainee Programme Award**  
最佳畢業生及管理培訓生招聘大獎  
CTgoodjobs



**"Privacy-Friendly" Gold Award**  
Office of The Privacy Commissioner for Personal Data, Hong Kong

**私隱之友金獎**  
香港個人資料私隱專員公署



## Trusted Partner of Small & Medium Enterprises 與中小企業客戶同行

The Bank continues to sponsor the Hong Kong SME Innovation Award 2023 organised by the Hong Kong Greater China SME Alliance Association as well as other organisations to motivate creativity and innovation for a better society.

本銀行繼續贊助相關機構，包括香港大中華中小企業商會舉辦香港中小企業創新大獎2023，鼓勵及嘉許更多有創意的企業及年青人，藉着創新思維，為香港社會提供更良好的生活環境，創建社會，引領未來。



The Hong Kong General Chamber of Small and Medium Business  
Best SME's Partner Gold Award and  
ESG Leading Enterprise Award  
香港中小型企業總商會  
中小企業最佳拍檔金獎及  
ESG領先企業獎

Hong Kong Economic Journal  
Corporate Brand Awards of Excellence  
SME Banking Services  
《信報》顯卓中小企銀行服務大獎



CAPITAL Magazine  
Merits of Achievements in Banking & Finance  
Trade Finance Banking Services  
《資本雜誌》資本卓越貿易融資銀行大獎

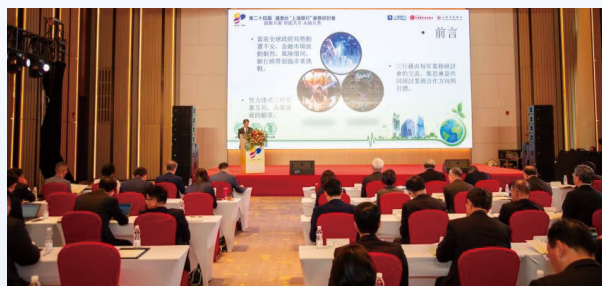
EDigest Brand Awards  
Best SME Financing Services and  
Outstanding Brand Award  
《經濟一週》最佳中小企融資服務大獎及  
非凡品牌大獎



## 創新共進 • 智能共享 • 永續共榮

The 24th tripartite annual conference was successfully held in Wuxi, Mainland China in November 2023. The strategic alliance of Bank of Shanghai, The Shanghai Commercial and Savings Bank, and our Bank will continue to expand collaboration on green finance, sustainability and exploration of FinTech solutions and partnerships.

第二十四屆滬港台「上海銀行」業務研討會於2023年11月在江蘇無錫圓滿舉行。上海銀行、上海商業儲蓄銀行和本銀行的「三行聯盟」將繼續擴大綠色金融合作，加強永續發展，尋求更廣泛金融科技應用及夥伴。



In November 2023, the Demo Day of Tribank 2023 InnoFuture FinTech Challenge featuring start-ups in AI, blockchain, biometrics and metaverse was successfully held in the Hong Kong Science Park.

三行聯合辦的「創新未來InnoFuture」Demo Day於2023年11月在香港科學園圓滿舉行。參賽的初創企業涵蓋人工智能、區塊鏈、生物科技、元宇宙等多個領域。



Winners:  
得獎隊伍：



市民永續

GreenhopeTW, Co., Ltd.  
市民永續股份有限公司

LegalSign.ai

Legal Tech Inc.  
律果科技股份有限公司



Shanghai Feeling Technology Co., Ltd.  
上海帆立信息科技有限公司

## Staff Engagement

Through motivation, empowerment and recognition programmes, we inspire our staff in pursuing their career development, exploring their potential and aspiration.



Long Service Awards (40 years)  
長期服務獎 (40年)



Long Service Awards (20 and 30 years)  
長期服務獎 (20年及30年)



Digital Innovation Award  
數碼創新大獎



Graduate Trainee Programme  
畢業生實習計劃



HKIB Outstanding Financial Management Planner Awards  
香港銀行學會傑出財富管理師大獎



Hong Kong Life Insurance Top Producers Convention 2023  
香港人壽傑出業務代表會議2023



Hai Kwong Club Award Ceremony  
海光俱樂部頒獎禮

## 以人為本

我們重視人才，透過職能發展和獎勵計劃，鼓勵員工發掘潛能，發展所長。



Fencing Experience Day  
劍擊體驗日



Bakery Workshop  
烘焙工作坊



The Corporate Games Tenpin Bowling Competition  
Team Event Champion  
工商機構運動會保齡球比賽隊際冠軍



Chinese Bankers Club Table Tennis Competition  
Women's Doubles Champion  
香港銀行華員會乒乓球大賽女子雙打冠軍



The Corporate Games  
Athletics Competition  
Men's Group A Masters  
Javelin Champion  
工商機構運動會田徑比賽  
男子甲組先進組標槍冠軍



The Corporate Games  
Athletics Competition  
Men's Group A Masters  
100m 1st Runner-up  
工商機構運動會田徑比賽  
男子甲組先進組100米亞軍



The Corporate Games  
Table Tennis Competition  
Women's Singles  
1st Runner-up  
工商機構運動會乒乓球比賽  
女子單打亞軍



Chinese Bankers Club  
Badminton Competition  
Men's Singles 2nd Runner-up  
香港銀行華員會羽毛球大賽  
男子單打季軍



2023 Asian Veterans  
Fencing Competition  
1 Gold 5 Silver Medallist  
2023亞洲元老劍擊錦標賽  
1金5銀獎牌得主



The 30th Green Power Hike 10km Bank Cup  
Champion & 1st Runner-up  
第三十屆綠色力量環島行慈善行山比賽  
十公里銀行盃 冠軍及亞軍



Heep Hong Charity Sports Fun Day  
Basketball Corporate Tournament  
1st Runner-up  
協康慈善運動同樂日企業籃球比賽 亞軍



Heep Hong Charity Sports Fun Day  
Football Corporate Tournament  
2nd Runner-up  
協康慈善運動同樂日企業足球比賽 季軍

## Corporate Social Responsibility

In pursuing our motto of “Serving the Community” through continued community investment, we have expanded the scope of our initiatives encouraged more staff participation in their commitment to society.



Shanghai Commercial • Pok Oi Cycle for Millions  
上海商業 • 博愛單車百萬行



Po Leung Kuk Chinese New Year TV Special  
保良局農曆新年電視節目《新春保良迎金兔》



Title sponsor for stage play “Tuesdays with Morrie”  
冠名贊助舞台劇《相約星期二》



The Community Chest 55th Anniversary Walk for Millions  
(Hong Kong-Zhuhai-Macao Bridge – Hong Kong Link Road)  
公益金五十五周年百萬行(港珠澳大橋 – 香港連接路)



Love U All Charitable Foundation Charity Walk  
愛心全達慈善基金慈善親子步行



West Kowloon CHILL RUN Winter Market  
cum Anti-Scam Charity Run  
西九CHILL RUN冬日市集慈善反詐跑

## 回饋社會

我們秉承回饋社會的宗旨，投入資源，擴闊項目範疇，支持及鼓勵員工參與。



Make Waves for Hong Kong  
浪游香港



Silver Lining Foundation Charity Walk  
雲彩行動愛心慈善步行



A Day With Food Angel  
惜食體驗日



WWF – Hong Kong Organic Farming  
世界自然基金會有機耕種活動



Elderly Care Programme – Dragon Boat Festival  
關懷獨居長者服務計劃 – 端陽暖萬心



Hong Kong Red Cross Blood Donor Day  
香港紅十字會捐血日



Bloomberg Square Mile Relay  
彭博一英里接力賽



International Coastal Cleanup Hong Kong  
香港國際海岸清潔運動

## MESSAGE TO SHAREHOLDERS

With the relaxation of pandemic-related restrictions and the full reopening of the borders, Hong Kong has, since the first quarter of 2023, returned gradually to normalcy. Supported by increased inbound tourism and greater private consumption, the local economy experienced a recovery throughout the year as the real Gross Domestic Product (“GDP”) grew by 3.2% year-on-year, while the local seasonally adjusted unemployment rate remained low at 2.9% for the last quarter of 2023 reflecting an optimistic labour market. The March 2023 collapses of three U.S. banks and a bank in Switzerland astonished the global banking industry, prompting major central banks worldwide to react swiftly to uphold global financial stability amidst a challenging environment of elevated interest rates, sustained inflationary pressures and heightened geopolitical tensions.

For the year 2023, the Bank reported a consolidated profit after tax of HK\$1,569 million, 35.2% lower than that of the preceding year, despite net interest income was comparatively higher as net fee and commission income had decreased while impairment charges had to be provided on loans being downgraded. Net comprehensive income attributable to equity holders for the year ended 31 December 2023 rose to HK\$2,843 million, versus a total comprehensive loss of HK\$476 million for 2022, mainly due to the substantive increase in market value of the Group’s debt securities portfolio as well as revaluation gain on unlisted shares.

The overall asset quality of the Bank had remained satisfactory with sound capital position and strong liquidity. Total capital adequacy ratio and common equity Tier 1 capital ratio further strengthened to 26.6% and 22.5% respectively at the end of 2023, with liquidity maintenance ratio averaged 59.9% throughout the year of 2023. On 17 January 2024, the Bank fully redeemed the US\$300 million subordinated notes due 2029, while our capital position continued to remain strong and sound.

### Business Strategies

The Bank strives to sustain business growth while enhancing the resilience of our business models. Our core strength continues to be the exemplary services that we provide to corporates and Small-and-Medium sized Enterprises (“SMEs”) as well as to high-net-worth individuals. The Bank continues to invest in digital infrastructure deploying the latest technologies to capture emerging opportunities in banking’s digital present and future. In particular, we extended remote account opening services to a wider range of customers and upgraded Shacom Business, our corporate mobile banking app. We also launched a new SME onboarding and loan application platform, providing a streamlined digital banking experience for our business customers anytime, anywhere.

Our tri-bank strategic collaboration with Bank of Shanghai in Mainland China and The Shanghai Commercial & Savings Bank, Ltd. in Taiwan remains strong. Last year, the alliance organized the 2023 InnoFuture of FinTech Competition to foster local and cross-strait fintech development and to catalyze innovative solutions. The competition concluded successfully, with three startups claiming the InnoFuture Award. We will continue to leverage our complementary strength to explore additional opportunities through tripartite collaboration.

In addition, it has been our priority to promote and expand Environmental, Social and Governance (“ESG”) and Green and Sustainable Banking (“GSB”) initiatives. The Bank has been strengthening ESG investment portfolios and providing relevant subscription offers to customers related to green/sustainable investments. We have also recently entered into a strategic cooperative relationship with the Hong Kong Quality Assurance Agency, which will help us develop additional green products, create tailored green finance solutions for customers, and support Hong Kong’s transition to a low-carbon economy. Over the course of 2023, we achieved encouraging growth in our ESG-related product shelf.

During the year, we constructed a stout Operational Resilience Framework to identify, prepare for and respond swiftly to potential risks and vulnerabilities and to learn from any unexpected disruptions. With active oversight and support from the Board of Directors and senior management, we have developed a holistic and integrated approach to managing risks and minimizing the adverse impact of risks and disruptions to the Bank’s critical operations delivery. Continual investment in building resilience is vital to shape the future of the Bank in a rapidly changing environment full of challenges and opportunities.

## MESSAGE TO SHAREHOLDERS (CONTINUED)

### Sustainability and Social Responsibility

Our second Sustainability Report published last year reflected our performance on sustainability related issues material to the Bank and our stakeholders. We have embedded sustainability into both our operations and our overall business strategy. The Sustainability Policy and Climate Risk Management Framework of the Bank align with the latest market needs and trends, and climate risk has already been incorporated into the Bank's existing risk management framework. As a result, we can identify climate-related risks and opportunities and foster resilience in the event of environmental challenges. The Bank works hand-in-hand with business partners to generate long-term growth across the value chain, involving in various activities and projects to advance the sustainability agendas.

We remain committed to environmental sustainability through sustained tangible actions, and will continue to improve our upstream monitoring measures to promote responsible business practices, and execute sound carbon footprint management to achieve carbon neutrality and the ultimate goal of net zero emissions.

The Bank is committed to serving and strengthening the communities in which we work and live. We have dedicated considerable resources and efforts to aiding those in need, including through our continued support of a wide range of socially minded initiatives, particularly those focusing on the environment, youth development and community care. We also highly encourage our staff to participate in charitable activities and volunteer services, and we applaud our colleagues who strive to make a difference.

### Bank Culture

In 2023, we focused on instilling throughout the Bank a culture of customer focus and appreciation as well as a "green" and "digital" mindset. We understand that a strong culture encourages favourable behavior and in order to cultivate a strong risk culture that reflects and maximizes the Bank's robust governance framework, our training program will encourage staff awareness and internal whistleblowing. We recognize that a bank-wide adherence to the highest ethics and integrity standards is crucial to our continued success.

### Looking Ahead

We remain confident that the Bank's many strengths that have built our success over more than seven decades will propel us through a plethora of operational headwinds arising from economic uncertainties, escalated geopolitical volatility, talent shortages, extreme weather events, and increased cyber vulnerabilities, among other global and regional trends. In the face of this challenging environment, we are committed to weathering any and all obstacles and capturing the opportunities. To enhance our market competitiveness, the Board of Directors and our management have made concerted efforts to devise a new Five-Year Plan of the Bank that focuses on Green Financing, Digital Technology, and the business in the Greater Bay Area while addressing evolving technological developments and risk diversification. It will guide the Bank to extend our superlative services to larger populations, improve asset quality, enhance operational efficiency and generate sustainable value.

Going forward, investing in new and emerging capabilities in digital, ESG and GSB remain our key priorities. We will continue to diversify our business and products offerings, accelerate our digital journey, deepen sustainable banking operations, and pursue prudent value creation, while being mindful of high regulatory compliance and governance standards. Furthermore, the Bank remains focused on our motto "For Personalized Service", as it underlies everything that we do, now and in the future.

On behalf of the Board of Directors, we express our sincere thanks to Mr. CHEN Yih Pin and Mr. Jafar Altaf AMIN for their valuable guidance and contributions to the Bank since June 2004 to April 2023 and October 2018 to January 2024 respectively.

We also express our sincere gratitude to our Board for their guidance and wise counsel, to our customers and shareholders for their continued support and trust in the Bank, and to our staff for their professionalism and dedication.

**Stephen Ching Yen LEE**  
Chairman

**David Sek-chi KWOK**  
Managing Director & Chief Executive

Hong Kong, 15 March 2024

## REVIEW OF OPERATIONS

### FINANCIAL HIGHLIGHTS

The highlights of the Group's consolidated financial performance for the year are summarized in the table below (with 2022 figures restated upon adoption of HKFRS 17 Insurance Contracts):

	2023	2022 (restated)
<b>HK\$ million</b>		
Profit for the year	1,569	2,423
Net interest income	4,396	3,887
Net fee and commission income	586	645
Other non-interest income	625	619
Operating expenses	1,850	1,786
Credit impairment losses	1,657	277
Net comprehensive income/(loss) attributable to equity holders	2,843	(476)
Gross loans and advances to customers	89,625	96,722
Deposits from customers	179,009	176,502
Net interest margin	2.03%	1.75%
Cost to income ratio	33.0%	34.7%
Loan to deposit ratio	50.1%	54.8%
Impaired loan ratio	2.84%	0.90%
Return on average assets	0.7%	1.1%
Return on average equity	4.5%	7.1%
Capital adequacy ratio	26.6%	22.0%
Common equity Tier 1 capital ratio	22.5%	19.6%
Average liquidity maintenance ratio	59.9%	55.1%

### FINANCIAL REVIEW

For the year ended 31 December 2023, consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together the "Group") was HK\$1,569 million, a decrease of HK\$854 million or 35.2% from that of 2022, despite net interest income was comparatively higher as net fee and commission income had decreased while impairment charges caused by downgrades of loans had surged considerably due to the challenging and volatile market environment. The Bank's operation and business, however, remained resilient with our Group's operating profit before tax and impairment losses having increased by 11.7% year-on-year, while total capital adequacy ratio and common equity Tier 1 capital ratio were 26.6% and 22.5% respectively at the year end with liquidity maintenance ratio for the year averaging at 59.9%.

Benefitting from higher global interest rates during the year, net interest income at HK\$4,396 million represented a year-on-year increase of 13.1% with the average net interest margin having improved by 28 basis points to 2.03% from that of 1.75% in 2022.

The total net fee and commission income for the year 2023 at HK\$586 million represented a decrease of HK\$59 million or 9.1% from that of a year ago, mainly attributable to the reduction in securities brokerage and investment products income resulting from the lackluster local stock market performance and reduced customer activities amidst market volatility. Such decreases were partly compensated by higher credit card fee income.



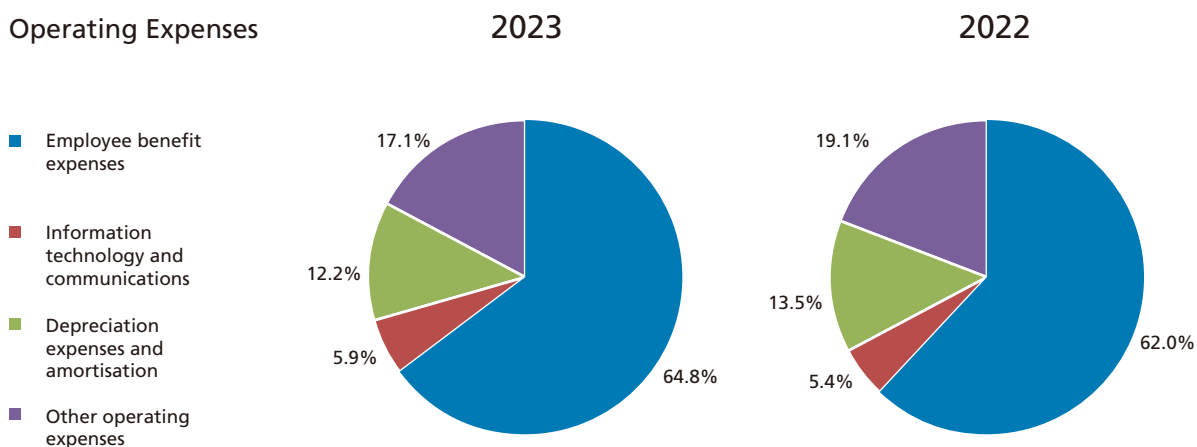
## REVIEW OF OPERATIONS (CONTINUED)

### FINANCIAL REVIEW (Continued)

Other non-interest income in 2023 at HK\$625 million was comparable to that in the prior year, mainly attributable to dividend income received and income from treasury's foreign exchange operations and interest rate instruments.

Credit impairment for the year saw a charge of HK\$1,657 million compared to HK\$277 million for the preceding year mainly due to continuance of interest rate hikes and sluggish local and global economic recovery, which resulted in certain loan downgrades and increases in provisioning.

Operating expenses amounted to HK\$1,850 million, which increased by HK\$64 million or 3.6% year-on-year. This was primarily attributed to the increase in manpower and resources to support the Group's business, digitalization and regulatory development efforts to align with the 5-year strategic plan.



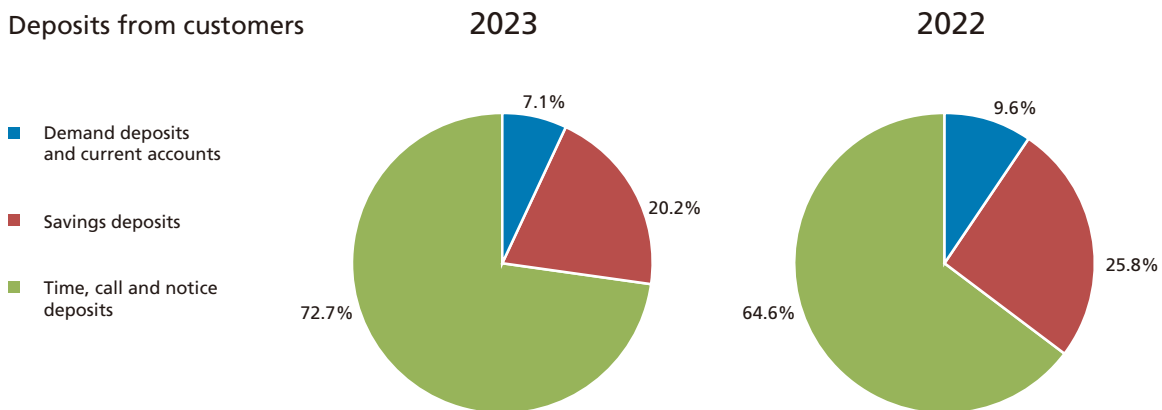
Net comprehensive income attributable to equity holders for the year of 2023 amounted to HK\$2,843 million, against a net comprehensive loss of HK\$476 million last year, mainly due to improvement in valuation and better yields of our debt and equity investment portfolio with high quality and average short tenor duration.

## REVIEW OF OPERATIONS (CONTINUED)

### FINANCIAL REVIEW (Continued)

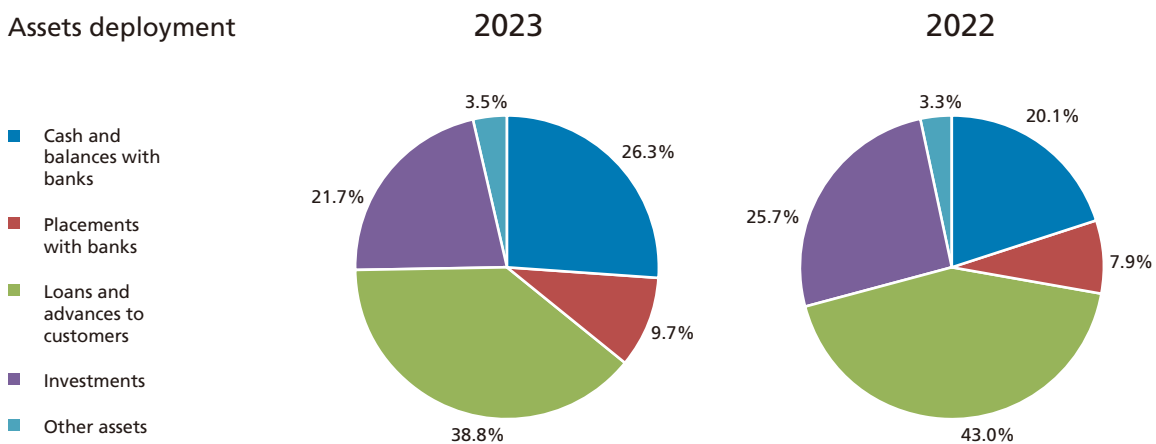
The Bank has maintained the strategy in prudently managing the loan portfolio and asset growth, both locally and overseas. On a year-on-year basis, total gross loans and advances to customers for the Group at the end of 2023 was HK\$89.6 billion, HK\$7.1 billion or 7.3% lower than the previous year-end's HK\$96.7 billion, but the Group's impaired loan ratio increased from 0.90% at the end of 2022 to 2.84% at the end of 2023, reflecting mainly the Hong Kong market environment. Total deposits from customers at HK\$179 billion were HK\$2.5 billion or 1.4% higher than HK\$176.5 billion recorded at the end of 2022, resulting in the overall loan-to-deposit ratio at 50.1% at the end of 2023 being lower than that of 54.8% a year ago.

Deposits from customers



Total assets at the end of 2023 amounted to HK\$230 billion, an increase of HK\$6.5 billion or 2.9% compared to that at the end of 2022, with return on average assets at 0.7% and return on average equity at 4.5% recorded for the year. The Group has adopted the new accounting standard HKFRS 17 "Insurance Contracts" for the year 2023, with comparative figures for last year revised for consistency.

Assets deployment



## REVIEW OF OPERATIONS (CONTINUED)

### FINANCIAL REVIEW (Continued)

The Group has consistently maintained a prudent and robust asset and liability management approach. Total capital adequacy ratio and common equity Tier 1 capital ratio were 26.6% and 22.5% at the end of 2023 versus that of 22% and 19.6% respectively, while the liquidity maintenance ratio also remained at comfortable levels throughout the year averaging at 59.9%. On 17 January 2024, the Bank fully redeemed the US\$300 million subordinated notes due 2029 while the capital adequacy ratio continued to display a strong capital position.

### HIGHLIGHTS OF BUSINESS PERFORMANCE

#### Corporate Banking and Trade Finance

The Group ended the year of 2023 with a decrease in corporate loans, but relative interest income had marked year-on-year growth benefitting from the high interest rate environment. Corporate Banking Division persists in providing quality services and customized financial solutions for customers with potential to best suit their needs. The credit quality of corporate loans remains generally stable and healthy. However, affected by the weakened global economy, intensive geopolitical tension and higher global interest rates, loan demand was continuously stagnant, and impairment allowances had to be provided during the year on the worsened performance of some customers.

Looking ahead, the Group will continue to stay alert to the ever changing environments of the local, regional and global markets and well manage the asset quality of the loan portfolio. More attention will be focused on diversification and the sectors concerning green and sustainability-related financing.

#### Retail Banking

As Hong Kong economy continues to recover from the pandemic, our branches have accelerated the efforts to acquire new customers. We observed a year-on-year increase of 45% in new customer growth, with over 80% of newly acquired customers now being enrolled on our digital platform. In April 2023, we enhanced the Remote Account Opening function in the “Shacom Bank” mobile app, enabling customers to apply for banking, investment and credit card services all in one go.

Despite the continuous shift of funds by our customers to time deposits and intense competition from the peers, we managed to maintain the interest costs and sustain a mild growth in deposits. Our securities business experienced a year-on-year drop in income as the average daily turnover of the Hong Kong stock market had dropped to a new low since 2019. To provide more tools for our customers, we launched an automated channel for Stock Option Trading in the fourth quarter of 2023, which has been gaining popularity with the number of order placements increased by more than 25%. Fee income from investment products decreased slightly as compared with that of the previous year under the challenging market conditions. We are benefitting from the reopening of borders and an increase in cross-border travel, which had led to a strong growth in turnover for our credit card business, with increases of 21% and 25% in card spending and merchant business respectively.

### HIGHLIGHTS OF BUSINESS PERFORMANCE (Continued)

#### Treasury

In 2023, geopolitical tensions in Europe had extended to the Middle East. Existing and new supply chain disruptions are still contributing to higher inflation, higher interest rates and a stronger US Dollar. The Group grasped the opportunity of the decline in Renminbi and Taiwan Dollar and had another very solid year of performance on foreign exchange related income. The Bank will keep providing more treasury products to meet customers' investment and hedging needs.

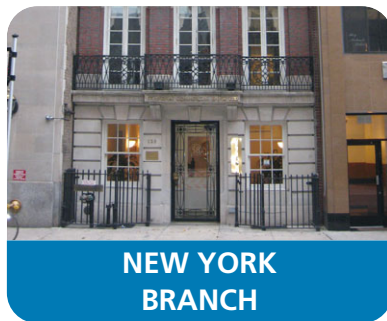
As to the Group's debt investment portfolio, revaluation losses on the Group's debt securities holdings had declined and stabilized with reduction in the sizes of the portfolio and interest rate risk managed down. Good liquidity and high credit quality continued to be the Group's key criteria for debt securities investment. New investments mainly came from debt securities issued by sovereigns, quasi-governments and supranational institutions.

#### Overseas and Mainland Branches

Navigating through an environment of sustained rising market interest rates, inflation trajectories, geopolitical escalations and macroeconomic uncertainty while recovery of China's economy was slower than expected, the global banking industry faced a more complex and evolving risk landscape. The Bank's overseas branches maintained a selective and disciplined approach in 2023, prioritizing on continual monitoring of credit quality, ongoing tightening of underwriting standards, and a deliberate deceleration in loan growth, especially in the real estate sector. Looking forward, the Branches will continue to pursue a prudent approach for booking new loans while searching for new growth opportunities in SME customers, trade financing and sustainable businesses.



383 East Valley Boulevard,  
Alhambra



125 East 56th Street,  
New York



231 Sansome Street,  
San Francisco



65 Cornhill,  
London



9/F, China Merchants Tower,  
161 Lu Jia Zui Road (E),  
Pu Dong, Shanghai



20/F, Tower One, Kerry Plaza,  
Futian District, Shenzhen

## REVIEW OF OPERATIONS (CONTINUED)

### DIGITAL TRANSFORMATION

Building on solid groundwork from previous years, the Bank's digital transformation journey reached a pivotal year in 2023, launching multiple projects which enhanced the Bank's risk management capabilities and operational efficiency. In addition, several platforms including SME Internet Banking, Data-driven Sales Discovery solution, and Customer Relationship Management application have been rolled out which broadened our scope of services and product offerings including enhanced Remote Account Opening services, streamlined e-Banking registration through electronic identity verification, and Faster Payment System services for both retail and corporate customers.

Being one of the pilot participants in Fintech initiatives of Commercial Data Interchange ("CDI") and Interbank Account Data Sharing ("IADS"), the Bank was invited to feature in CDI Promotional Video Series and participated in a panel discussion regarding Open Application Programming Interface Revolution in the 2023 Hong Kong Fintech Week. Going forward, we eagerly explore the numerous opportunities ahead leveraging on our commitment to excellence in the digital realm.



### RISK MANAGEMENT

Hong Kong economy continued to face challenges on the road to recovery, with deteriorating signs on international trade, local and global property markets, etc., amid the U.S.-China geopolitical tensions, trade sanctions, persistent high-interest rates and military conflicts elsewhere. The Group has very limited exposure to Mainland developers, with classified loans and Expected Credit Loss ("ECL") maintained at a lower level better than our peers in the past few years. In 2023, certain customers engaged in local property development, manufacturing, and trading ran into difficulties in observing their obligations on time and were short covered in collateral, resulting in the considerable increase in both the classified loan ratio and impairment amount.

Taking a customer-centric approach, the Group aims to assist clients and to collaborate actively with them to find suitable solutions rather than resorting to loan recalls. However, there are a few customers that have become vulnerable due to prolonged economic downturn and the unfavorable property market in Hong Kong.

### RISK MANAGEMENT (Continued)

Despite signs of mild recovery in Hong Kong's economy, the Group acknowledges the potential risks and uncertainties in the external environment. The recent banking stress in the United States and Europe, including the failure of some regional banks in the United States in early 2023, has had a ripple effect on global markets. Additionally, the tightening of monetary policies by major central banks might have led to slower global growth or recession fear. These uncertainties, combined with geopolitical risks impacting global trades and causing market volatility, pose downside risks to the growth outlook. In response to these challenges, the Group remains vigilant and proactive in monitoring and managing risks to maintain a resilient risk profile. Despite the continued impacts from various market-specific factors, the Group has maintained strong capital and liquidity ratios. The Group has also strengthened its risk management systems and practices across all risk types, adhering adamantly to the "Three Lines of Defense" risk governance framework.

In the face of evolving challenges, the Group consistently addresses key regulatory focus areas to ensure resilience and preparedness, through proactively managing credit, liquidity and other emerging risks. Recognizing the increasing trends of technology related-crimes and to effectively manage the corresponding risks, the Group has implemented various anti-deception initiatives facilitating the thorough scrutiny of cybersecurity threats, while remained committed to combating money laundering, terrorist financing and fraud. In addition, the Group has kept up with market innovations and progressively invested in IT infrastructure by extending the regulatory technology roadmap. Through these efforts, the Group aims to consistently maintain stability and resilience and protect the interests of all stakeholders in a dynamic risk management landscape.

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2023.

## Principal activities

Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together the "Group") are engaged in the provision of banking and related financial services. The principal activities of the Bank's subsidiaries are set out in Note 24 to the consolidated financial statements.

## Business review

Discussions on the Group's business and performance are provided throughout this Annual Report and form part of this Report of the Directors.

Topics	Sections
1. A fair review of the business and a discussion with analyses of the performance of the Group for the year ended 31 December 2023, including an analysis using financial key performance indicators, as well as particulars of important events affecting the Group that have occurred since the end of the year 2023 (if any)	<ul style="list-style-type: none"><li>• Review of Operations</li></ul>
2. An indication of likely future development in the business of the Group	<ul style="list-style-type: none"><li>• Message to Shareholders</li><li>• Review of Operations</li></ul>
3. Description of the principal risks and uncertainties facing the Group	<ul style="list-style-type: none"><li>• Message to Shareholders</li><li>• Review of Operations</li><li>• Note 3 to the Consolidated Financial Statements</li></ul>
4. A discussion on the Group's environmental policy and performance*	<ul style="list-style-type: none"><li>• Message to Shareholders</li></ul>
5. Compliance with relevant laws and regulations which have a significant impact on the Group*	<ul style="list-style-type: none"><li>• Corporate Governance Report</li></ul>
6. Relationships with the key stakeholders that have a significant impact on the Group*	<ul style="list-style-type: none"><li>• Message to Shareholders</li><li>• Review of Operations</li><li>• Corporate Governance Report</li></ul>

\* Further discussions on this topic are set out in the Bank's 2023 Sustainability Report to be made available on the Bank's website by April 2024.

## REPORT OF THE DIRECTORS (CONTINUED)

### Results and appropriations

The profits of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss on page 55 of this Annual Report.

No payment of a final dividend was recommended by the Board for the year ended 31 December 2023 as at the date of this Report of the Directors. The Board has the discretion to propose and declare dividends to the shareholders of the Group, subject to the approval of the shareholders at the forthcoming annual general meeting of the Bank to be held on Wednesday, 24 April 2024.

### Company status

The Bank is a public limited company since 1 November 2017.

### Share capital

The Bank did not issue any new share during the year. Details of the share capital of the Bank during the year are set out in Note 33 to the consolidated financial statements.

### Debentures issued and redeemed

Following the full redemption of the Tier-2 subordinated notes (the "Notes") for US\$300 million due 2029 (Stock Code: 5530) on 17 January 2024 and subsequent withdrawal of the listing of the Notes on The Stock Exchange of Hong Kong Limited ("HKEX") upon the close of business on 25 January 2024, up to the date of this Report of the Directors, the Bank has another tranche of the Notes with an outstanding principal amount of US\$350 million due 2033 (Stock Code: 5713) which are currently traded on HKEX. The funds raised are used to strengthen the capital base and support the business growth of the Bank.

### Equity-linked agreements

During the year ended 31 December 2023, the Bank did not enter into any equity-linked agreement.

### Donations

Charitable and other donations made by the Group during the year amounted to HK\$10,132,000 (2022: HK\$7,643,000).



## REPORT OF THE DIRECTORS (CONTINUED)

### Directors

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

#### Non-executive Chairman

Mr. Stephen Ching Yen LEE

#### Executive Director

Mr. David Sek-chi KWOK

#### Non-executive Directors

Mr. CHEN Yih Pin\*

Mr. JIN Yu

Mr. John Con-sing YUNG

Mr. Jafar Altaf AMIN<sup>^</sup>

Ms. Maria Pui Man KIANG

Mr. YE Jun

#### Independent Non-executive Directors

Mr. Johnson Mou Daid CHA

Mr. Gordon Che Keung KWONG

Mr. E. Michael FUNG

Mr. Charles Chi Man MA

Mr. Sunny Yiu Tong CHEUNG

\* The term of directorship of Mr. CHEN Yih Pin ended at the conclusion of the Seventy-Second Annual General Meeting of the Bank held on 21 April 2023.

<sup>^</sup> Mr. Jafar Altaf AMIN resigned as a Non-executive Director on 19 January 2024 and confirmed that he had no disagreement with the Board and there were no matters in relation to the affairs of the Bank that needed to be brought to the attention of the shareholders of the Bank.

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Stephen Ching Yen LEE, Mr. Johnson Mou Daid CHA, Mr. Gordon Che Keung KWONG and Mr. Sunny Yiu Tong CHEUNG shall retire by rotation at the forthcoming Annual General Meeting and are eligible to offer themselves for re-election.

## REPORT OF THE DIRECTORS (CONTINUED)

### Directors of subsidiaries

The directors of the subsidiaries of the Bank during the year and up to the date of this report were:

#### Natural Person

John Con-sing YUNG, David Sek-chi KWOK, Ryan Yuk Lung FUNG<sup>1</sup>, Ricky Chi-wai CHAN<sup>2</sup>, KUO Ching-Yi<sup>3</sup>, LIN Chih Hung<sup>4</sup>, Timothy Kam-tim CHAN, Burton Chi-shan CHENG, CHENG Ming Ho, Jerome Chee-keong GOH, Zachary Wing-kwong KWAN, Eric Wing-hong KO, Philip She-hoi LEE, LI Yiu Ki, Riggs Kwok-ching TAM, Wendy Li-chien WENG, Annie Pak-yan WONG, Philip Wing-cheong WONG, Sammy Tak-keung WONG, Sharon Kam-wing WONG, William Wai-leung WONG, YEUNG Chi Kong

- 1 Appointed as a director of the relevant subsidiaries of the Bank with effect from 5 September 2023.
- 2 Resigned as a director of the relevant subsidiaries of the Bank with effect from 5 September 2023.
- 3 Appointed as a director of the relevant subsidiary of the Bank with effect from 27 December 2023.
- 4 Resigned as a director of the relevant subsidiary of the Bank with effect from 27 December 2023.

#### Body Corporation

Right Honour Investments Limited, Shanghai Commercial Bank Limited

### Directors' interests and short positions in shares, underlying shares and debentures

At no time during the year was the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and the Chief Executive of the Bank (including their spouses and children under 18 years of age) to acquire benefits by means of the acquisition of any interests or short positions in the shares or underlying shares in, or debentures of, the Bank or any other body corporate.

### Directors' interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Permitted indemnity provision

Pursuant to the Bank's Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against all losses and liabilities (to the extent permitted by the Companies Ordinance) incurred by such Director or other officer in the execution of his/her duties or otherwise in relation thereto. Insurance cover has been arranged to indemnify the Directors and other officers of the Group.

## REPORT OF THE DIRECTORS (CONTINUED)

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### Management contracts

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

### Compliance with the Banking (Disclosure) Rules

The Bank has complied with the disclosure requirements set out in the “Banking (Disclosure) Rules” and the “Guideline on the Application of the Banking (Disclosure) Rules” contained in the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

### Compliance with the Corporate Governance Code

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

### Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Bank and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Stephen Ching Yen LEE**  
Chairman

Hong Kong, 15 March 2024

Shanghai Commercial Bank Limited (the “Bank”) and its subsidiaries (together the “Group”) are committed to maintaining good corporate governance to safeguard the interests of its shareholders, depositors and other relevant stakeholders. The Bank is an authorized institution supervised by the Hong Kong Monetary Authority (“HKMA”) under the Banking Ordinance. Throughout the year ended 31 December 2023, the Bank followed the module on “Corporate Governance of Locally Incorporated Authorized Institutions” of the Supervisory Policy Manual (“SPM CG-1”) issued by the HKMA.

The Bank, after taking into consideration its particular circumstances as a non-listed public limited company, has also adopted the code provisions in the Corporate Governance Code (the “CG Code”) as stated in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) that are relevant to the Bank. This Corporate Governance Report is prepared with reference to the CG Code.

### Board of Directors

The Board has collective responsibility for promoting the long-term sustainability and success of the Bank by directing and supervising its affairs within a framework of prudent and effective controls. The Board takes into account the legitimate interests of shareholders, customers, employees and other relevant stakeholders. There are established procedures for Directors to seek independent professional advice on matters relating to the Bank where appropriate. All costs associated with obtaining such advice will be borne by the Bank.

The Board is responsible for providing strategic direction and overseeing the implementation of strategic objectives and goals by the Management. The Board has established five committees with clear delegation and formal terms of reference setting out the authorities, responsibilities and membership for the oversight of certain major functional areas. Each committee, including Executive Committee (and its sub-committee, Digital Transformation Committee), Audit Committee, Nomination and Remuneration Committee, Risk Committee and Sustainability Committee, is provided with sufficient resources to perform its duties. The Board has also established senior management-level committees as detailed below in this report.

### Chairman and Chief Executive

The roles of Chairman of the Board and Chief Executive are separate with a clear division of responsibilities and are taken up by different persons.

The Chairman, Mr. Stephen Ching Yen LEE who is a Non-executive Director, is responsible for leading the Board and monitoring the overall effective functioning of the Board, as well as ensuring all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive, Mr. David Sek-chi KWOK who is an Executive Director, is responsible for implementing the decisions, strategies and policies as established by the Board. The Chief Executive is also responsible for leading the Senior Management in running the day-to-day business and operations of the Bank as well as chairing the Executive Committee.

### Board Composition

The Board comprises Directors with a variety of backgrounds and a diverse range of business, banking and professional expertise. The Board also has a well-balanced composition of Executive Director (“ED”), Non-executive Directors (“NEDs”) and Independent Non-executive Directors (“INEDs”) to ensure independence and objectivity of the decisions as well as robustness and impartiality of the Board’s oversight of the Management.

Following the term of directorship of Mr. CHEN Yih Pin ended at the conclusion of the Seventy-Second Annual General Meeting of the Bank held on 21 April 2023 and the resignation of Mr. Jafar Altaf AMIN on 19 January 2024, the Board currently comprises eleven Directors, including five NEDs, one ED and five INEDs whose biographical details are individually set out in the “Biographical Details of Directors and Management” section of this Annual Report.

The Bank has received from each of the INEDs an annual confirmation of his independence which has also been assessed in accordance with the guidelines set out in Rule 3.13 of the Listing Rules as well as the factors outlined in HKMA’s circular on “Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong” issued on 14 December 2016. The Board considers that all INEDs continue to be independent of the Management and free of any relationship that could materially interfere with the exercise of their independent judgement.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) among Board members.

The Bank has maintained on its website ([www.shacombank.com.hk](http://www.shacombank.com.hk)) an updated List of Directors showing their roles and functions and whether they are INEDs.

### Appointment and Re-election of Directors

The Bank adopts a formal procedure for the appointment/re-appointment of Directors to the Board. The Board is empowered under the Bank’s Articles of Association (the “AoA”) to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Nomination and Remuneration Committee is responsible for reviewing any proposed appointment, mainly based on merits but also having due regard to the benefits of Board diversity, and making recommendation to the Board for consideration and approval. Pursuant to relevant requirements in the Banking Ordinance, consent from the HKMA for new appointment of Director is required and will be sought.

Directors newly appointed by the Board during the year are subject to re-election by shareholders of the Bank at the first annual general meeting following their appointments. There is no specified term of appointment for Non-executive Directors. However, the AoA stipulates that at each annual general meeting, one-third of the Directors (excluding the Executive Director holding the office as Chief Executive) who have been longest in office since their last election shall retire and be eligible for re-election.

In respect of the re-appointment of INEDs, in particular, if such INED has served on the Board for more than nine years, the Nomination and Remuneration Committee takes additional due care to assess the suitability and exercise judgment in relation to the independence of the INED concerned, and making recommendation to the Board for consideration and approval.

### Board Process

The Board meets regularly to formulate objectives, strategies, business plans and annual budgets and to assess the Bank's performance, position and prospects throughout the year. All Directors have unfettered access to board papers and related materials which are provided in a timely manner. The Corporate Secretary keeps the minutes of Board meetings.

Schedule for regular Board and Board Committee meetings in each year is made available to all Directors before the end of the preceding year to facilitate their attendance. Directors have demonstrated strong commitment in attending meetings over the years. All Directors are also given opportunities to propose matters in the meeting agenda. During the year, the Board held six physical meetings (including one meeting with HKMA) and the important matters discussed at Board meetings for the year included, among other things:

- review of progress update of 5-Year Plan for 2021-2025
- annual budget
- interim and annual financial statements, and the quarterly and half-year Consolidated Reporting Package of the Group for submission to the parent company, The Shanghai Commercial & Savings Bank, Ltd.
- the Bank's new issuance and redemption of Tier 2 Subordinated Debts of the Bank
- proposal for re-election of Directors
- report on board performance evaluation
- appointment and oversight of senior management, and assessment of management competence
- half-yearly summary report on stress tests
- quarterly review of large credit exposures and risk concentrations, and review of the updates from the management plan of action to mitigate the risks of loan portfolio of the Bank and to address regulator's concerns
- revised Terms of Reference of the Board, Executive Committee, Audit Committee, Risk Committee, Nomination and Remuneration Committee, Sustainability Committee and Digital Transformation Committee and other senior management-level committees established by the Board
- review of significant policies and plans for enhancing the credit risk management of the Bank
- Internal Capital Adequacy Assessment Process
- Risk Appetite Statement
- Recovery Plan
- portfolio limits on lending and matters relating to the Bank's loan portfolio
- Slavery and Human Trafficking Statement under the UK Modern Slavery Act 2015
- Sustainability Vision Statement, Sustainability Policy, Climate Risk Management Framework, and annual Sustainability Report

To enable Board members to have a fair understanding and hence assessment of the Bank's performance, review of the main economic developments in Hong Kong is provided to Board members at each regular Board meeting in addition to regular financial and business reports.

The Bank has arranged directors and officers liability insurance cover to indemnify the Directors and other officers against any potential liability arising from the Bank's business activities to which such Directors and officers may be held liable.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### Directors' Attendance Records

The attendance records of annual general meeting, Board and Board Committee meetings held during the year ended 31 December 2023 are as follows:

Directors	Number of meetings attended/held in 2023						
	Annual General Meeting	Board	Executive Committee	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Sustainability Committee
<b>Non-executive Directors</b>							
Mr. Stephen Ching Yen LEE	✓	6/6 <sup>(C)</sup>	–	–	2/2	–	–
Mr. CHEN Yih Pin <sup>(1)</sup>	–	1/1	–	–	–	–	–
Mr. JIN Yu	✓	5/6	–	–	–	–	–
Mr. John Con-sing YUNG	✓	5/6	12/12	4/4	–	–	2/2
Mr. Jafar Altaf AMIN	✓	6/6	–	–	–	–	–
Ms. Maria Pui Man KIANG	✓	6/6	–	–	–	–	–
Mr. YE Jun	✓	6/6	11/12	–	–	–	–
<b>Executive Director</b>							
Mr. David Sek-chi KWOK	✓	6/6 <sup>(DC)</sup>	12/12 <sup>(C)</sup>	–	–	–	2/2
<b>Independent Non-executive Directors</b>							
Mr. Johnson Mou Daid CHA	✓	6/6	–	–	2/2 <sup>(C)</sup>	4/4	–
Mr. Gordon Che Keung KWONG	✓	6/6	–	4/4 <sup>(C)</sup>	2/2	4/4	–
Mr. E. Michael FUNG	✓	6/6	–	4/4	–	4/4 <sup>(C)</sup>	–
Mr. Charles Chi Man MA	✓	6/6	–	4/4	–	4/4	2/2 <sup>(C)</sup>
Mr. Sunny Yiu-tong CHEUNG	✓	6/6	12/12	–	–	–	–

Notes:

- The term of directorship of Mr. CHEN Yih Pin ended at the conclusion of the Seventy-Second Annual General Meeting of the Bank held on 21 April 2023.
- Chairmen of the Board and Board Committees and Deputy Chairman of the Board are indicated by (C) and (DC) respectively.

### Board Effectiveness

During the year ended 31 December 2023, the Board conducted an annual assessment by way of a board performance evaluation questionnaire, covering (1) Board composition and skills; (2) Strategic orientation and risk management; (3) Board Committees' performance and authority; (4) Corporate culture, management development and succession; (5) Board and Board Committees meetings; (6) Performance management; (7) Communication with management; (8) Communication with shareholders, and (9) Director's self-evaluation. The overall feedback was positive and the Directors were of the view that their independent views and input were available and the Board encouraged open communication and challenge about the Bank's affairs. The performance of individual board members was satisfactory, and all Directors were willing and able to commit sufficient time, attention and efforts to fulfil their responsibilities. Included also in the assessment is a forward-looking analysis of how the Board and the Board Committees could anticipate and shape the future of the Bank in light of the rapid changes in the market. The assessment results had been reviewed by the Nomination and Remuneration Committee and presented to the Board.

### Induction and training for Directors

Each newly appointed Director receives an information package on the scope of duties and obligations to be observed by a Director. Furthermore, to enable the Directors to have a proper understanding of the Bank's operations and business, their responsibilities under applicable laws and regulations as well as the development trends in the industry, the Bank arranges and provides trainings and timely information to Directors on corporate structure and profile, board composition, senior management profile, anti-money laundering, legal, regulatory and compliance updates, environmental, social and governance ("ESG"), FinTech, changes in accounting standards, and etc. Directors are also informed of and encouraged to attend outside talks, trainings and seminars organized by professional bodies at the Bank's expenses to enrich their knowledge in discharging their duties as a director. The training attendance records of the Directors for each year are maintained by the Corporate Secretary.

During the year of 2023, key areas of training received by Directors of the Bank to update and develop their skills and knowledge are summarized as follows:

Directors	Training areas during the year 2023			
	Regulatory updates	ESG	Digital and Technology	Others
<b>Non-executive Directors</b>				
Mr. Stephen Ching Yen LEE	✓	✓	✓	✓
Mr. JIN Yu	✓	✓	✓	✓
Mr. John Con-sing YUNG	✓	✓	✓	✓
Ms. Maria Pui Man KIANG	✓	✓	✓	✓
Mr. YE Jun	✓	✓	✓	✓
<b>Executive Director</b>				
Mr. David Sek-chi KWOK	✓	✓	✓	✓
<b>Independent Non-executive Directors</b>				
Mr. Johnson Mou Daid CHA	✓	✓	✓	✓
Mr. Gordon Che Keung KWONG	✓	✓	✓	✓
Mr. E. Michael FUNG	✓	✓	✓	✓
Mr. Charles Chi Man MA	✓	✓	✓	✓
Mr. Sunny Yiu-tong CHEUNG	✓	✓	✓	✓

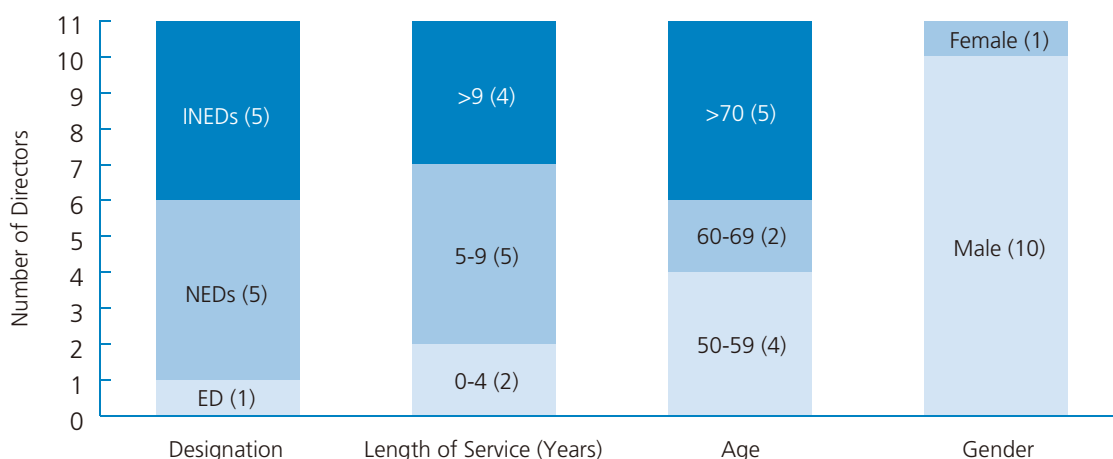


## Guiding principles on Diversity

The Bank recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced business, the Bank sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the Board's composition, board diversity is being considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of the Board diversity.

These guiding principles are not intended to, and do not, either enlarge or diminish the responsibilities of the Directors under the AoA and such other relevant laws, rules, regulations, codes, guidelines, practice notes and circulars, but to serve as reference for Directors to take appropriate actions to achieve the aims of Board diversity as outlined above. The Board will review and, where appropriate, revise from time to time the principles in light of experience, evolving standards of corporate governance and any other changing circumstances.

### Board Diversity Profile



The Nomination and Remuneration Committee reviews the structure, size and composition of the Board and Board committees at least annually and makes recommendations on any proposed changes to the Board to complement the Bank's business strategy. The Board considers the current Board composition has achieved diversity in various aspects, including but not limited to designation, length of service, gender, age, cultural, skills and professional experience. The formal procedure for the appointment/re-appointment and succession planning for Directors adopted by the Bank to ensure Board diversity is maintained in all its aspects with due regard. The Board also aspires to achieve an appropriate balance of gender diversity with reference to prevailing recommended best practices.

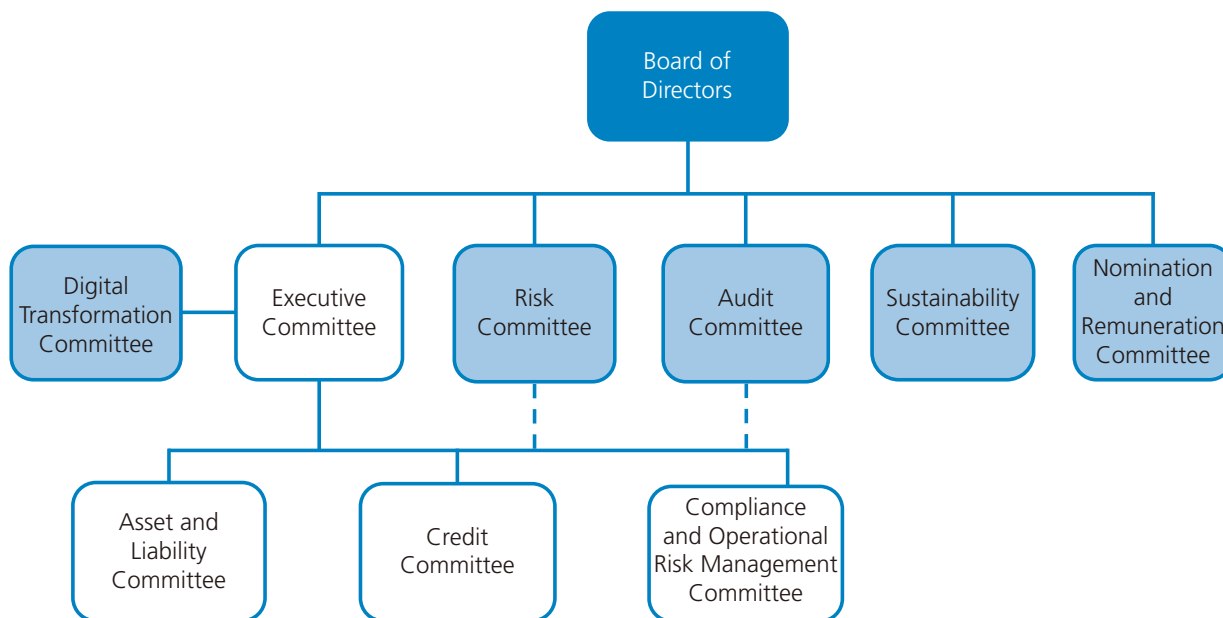
The Bank puts considerable effort to raise awareness of different types of diversity, with a particular focus on gender diversity, and articulates expectations in creating an inclusive and diverse working environment for all. The Bank embraces gender diversity within the workforce and strives to achieve gender balance at the executive and senior management level. As at 31 December 2023, the total headcount (full-time employees only) of the Group was 1,913, of which 49% were male employees and 51% were female employees, and the male/female ratio of the senior executives of the Group was 55%/45%. The Bank continues to explore initiatives to increase female representation in leadership roles with an aim to achieving a balanced gender.

## Delegation by the Board

The Board has established committees, namely, Executive Committee (and its sub-committee, Digital Transformation Committee), Audit Committee, Nomination and Remuneration Committee, Risk Committee and Sustainability Committee, to assist it in carrying out its responsibilities.

The Board has also established senior management-level committees, namely, Asset and Liability Committee, Credit Committee, and Compliance and Operational Risk Management Committee, to manage different areas of the business operations and risk management of the Bank.

Each of these Committees has specific written terms of reference setting out in details their authorities and responsibilities, and their meeting minutes are sent to all Directors.



### Legend



Chaired by an Independent Non-executive Director



Chaired by the Managing Director & Chief Executive



These three Committees also reported to Risk Committee and Audit Committee regularly.

## Board Committees

### • Executive Committee

The Executive Committee operates as a general management committee under the delegated authority of the Board to oversee the management and day-to-day running of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time.

The Executive Committee provides regular updates to the Board on the business performance of the Bank by way of presenting monthly reports on financial performance and quarterly progress reports on budgets.

The Executive Committee currently has four members as named below:

- Mr. David Sek-chi KWOK (Executive Director) – Chairman;
- Mr. Sunny Yiu-tong CHEUNG (Independent Non-executive Director)
- Mr. YE Jun (Non-executive Director); and
- Mr. John Con-sing YUNG (Non-executive Director).

### • Digital Transformation Committee

The Digital Transformation Committee oversees the formulation and execution of the Bank's digital transformation strategies. The Digital Transformation Committee provides regular updates to the Executive Committee.

The Board has appointed Mr. Sunny Yiu-tong CHEUNG, an Independent Non-executive Director, as the Chairman of the Digital Transformation Committee, and the members of this Committee are the Chief Risk Officer, Chief Financial Controller, Chief/Deputy Chief of Divisions or Head of Departments responsible for digital strategy, information technology & operations, retail banking, corporate banking, human resources and digital transformation of the Bank.

### • Audit Committee

The Audit Committee considers the nature and scope of audit reviews and reviews the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The Board has also delegated its corporate governance functions as set out in the principle of paragraph A.2 "Corporate Governance Functions" of Part 2 of the CG Code to the Audit Committee. The Bank has made available on its website the prevailing Terms of Reference of the Audit Committee.

With the Chairman of the Audit Committee possessing appropriate accounting qualifications as well as related financial management expertise, the Committee currently has four members as named below:

- Mr. Gordon Che-keung KWONG (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director);
- Mr. E. Michael FUNG (Independent Non-executive Director); and
- Mr. Charles Chi-man MA (Independent Non-executive Director).

In the course of performing its roles and functions, the Audit Committee works closely with the auditors and the Bank's executives. As such, in addition to the members of the Audit Committee, regular attendees at the Audit Committee meetings include the Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief Financial Controller, Chief Auditor, Chief of Legal & Compliance and representatives from the Bank's external auditor. The Audit Committee also met with the representatives of the Bank's external auditor in the absence of the Senior Management in accordance with its Terms of Reference.

The following is a summary of the major tasks performed by the Audit Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Audit Committee
- Review and making recommendations to the Board for approval of (i) the 2022 audited financial statements of the Group and the 2023 interim financial disclosure statement, and (ii) the quarterly and half-year Consolidated Reporting Package of the Group for submission to the parent company, The Shanghai Commercial & Savings Bank, Ltd.
- Review of the remuneration and terms of engagement of the external auditor and making recommendations to the Board for approval of their re-appointment
- Review of the adequacy of resources, staff qualifications, experience and training programmes of the financial reporting function
- Review of the adequacy of resources, effectiveness and the annual budget of the Internal Audit function and the performance of the Chief Auditor
- Review and approval of the Policy on Non-audit Services, and non-audit-related services provided by the external auditor and other professional firms
- Review of the independence, objectivity and effectiveness of the audit process of the external auditor and discussion of their audit work
- Review and approval of the Internal Audit Charter and Internal Audit Policy and Procedures, and the internal audit plan
- Review of the internal audit reports, including findings and recommendations
- Review and approval of the compliance plan for the year 2023
- Review of compliance reports on a regular basis
- Review of the revised Whistleblowing Policy, and the annual report of whistleblowing cases, if any
- Review of the summary reports from the Legal and Compliance Division of the Group on the HKMA examinations and regulatory concerns as well as management's actions in implementing the HKMA's recommendations on a regular basis
- Review of the Group's financial and accounting policies and practices and making recommendations to the Board for approval of, including but not limited to, Corporate Governance Policy, Policy on Presentation and Disclosures for Financial Statements and Regulatory Disclosure, Policy on the Acquisition and Disposal of Assets, policies on enhancing the credit risk management of the Bank
- Review of the highlights of major new accounting and financial reporting standards and guidance issued by the Hong Kong Institute of Certified Public Accountants as well as the impact to the Group on their adoption
- Review of reports from the senior-management level committees

### ◉ **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee considers the structure, size and composition of the Board and is responsible for recommending to the Board on matters relevant to appointments, re-appointments, removal and succession planning of Directors and Senior Management in accordance with the Bank's relevant policies, guidelines and business strategies. This Committee also oversees the implementation of a sound remuneration policy including recommending to the Board remuneration of the Directors and Senior Management of the Bank, assisted by independent professional consultants where appropriate. The Bank has made available on its website the prevailing Terms of Reference of the Nomination and Remuneration Committee.

The remuneration policy of the Group is reviewed by the Nomination and Remuneration Committee and approved by the Board. No Director or any of their associates is involved in deciding his/her own remuneration, and details of Directors' emoluments are set out in Note 13 to the Consolidated Financial Statements. Details of remuneration for Senior Management and key personnel of the Group during the year are disclosed in Note 14 of "Regulatory Disclosures" of this Annual Report in accordance with Banking (Disclosure) Rules with the exception of details of remuneration by band for the Senior Management. The Board currently considers such disclosure by band inappropriate for the time being but subject to review whenever necessary.

The Nomination and Remuneration Committee currently has three members as named below:

- Mr. Johnson Mou Daid CHA (Independent Non-executive Director) – Chairman;
- Mr. Gordon Che Keung KWONG (Independent Non-executive Director); and
- Mr. Stephen Ching Yen LEE (Non-executive Director).

In addition to the members of the Nomination and Remuneration Committee, the Bank's Chief Executive and Chief of Human Resources are regular attendees at the Committee meetings.

The following is a summary of the major tasks performed by the Nomination and Remuneration Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Nomination and Remuneration Committee, Policy on Management Succession, and Remuneration Policy
- Review of the structure, size and composition of the Board and Board committees, including review of Board diversity profile and assessment of the independence of Independent Non-executive Directors
- Review of the Nomination Procedures of the Bank
- Review and making recommendations to the Board for approval of proposal for re-election of Directors
- Review the report on board performance evaluation, and annual performance evaluation of each director, Chief Executive and Deputy Chief Executives
- Review and making recommendations to the Board for approval of the senior management organization structure, appointment of and promotion to senior management, and the succession plan of the Bank
- Review and making recommendations to the Board for approval of the remuneration packages of Senior Management and key personnel of the Bank
- Review the independent review report on the Bank's remuneration system carried out by Internal Auditor
- Review of culture-related matters of the Bank

### • Risk Committee

The Risk Committee oversees and reviews the Bank's high-level risk related matters and makes recommendations to the Board on risk management strategies as well as the risk tolerance and risk appetite of the Bank. The Bank has made available on its website the prevailing Terms of Reference of the Risk Committee.

The Risk Committee currently has four members as named below:

- Mr. E. Michael FUNG (Independent Non-executive Director) – Chairman;
- Mr. Johnson Mou Daid CHA (Independent Non-executive Director);
- Mr. Gordon Che Keung KWONG (Independent Non-executive Director); and
- Mr. Charles Chi Man MA (Independent Non-executive Director).

In addition to the members of the Risk Committee, regular attendees at the Risk Committee meetings include the Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief of Legal & Compliance and Chief Financial Controller. The Risk Committee also met with the Chief Risk Officer in the absence of the Executive Director and Senior Management in accordance with its Terms of Reference.

The following is a summary of the major tasks performed by the Risk Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Risk Committee, Asset and Liability Committee, Credit Committee and Compliance and Operational Risk Management Committee, and review of reports from these committees
- Review of the quarterly report on risk exposures and risk management activities of the Bank
- Review and making recommendations to the Board for approval of the Risk Appetite Statement, Climate Risk Management Framework, Recovery Plan, Internal Capital Adequacy Assessment Process ("ICAAP") and Slavery and Human Trafficking Statement under the UK Modern Slavery Act 2015
- Review and making recommendations to the Board for approval of the high-level risk-related policies of the Bank including but not limited to, Business Continuity Planning Policy, Capital Policy, Policy on Liquidity Risk Management, Products and Services Governance Policy, and Policy on Lending Authority and Limit
- Review and approval of the Operational Resilience Framework, Compliance Policy, Customer Acceptance and Anti-money Laundering and Counter-terrorist Financing Policy, Sanctions Policy, Risk Management Framework for Cybersecurity & IT Governance, Information Security Policy, Stress-testing Policy, Fair Valuation Policy for Financial Instruments of the Bank, and policies of U.S. Branches' related to Bank Secrecy Act/Anti-money Laundering, Third Party Relationship Management, and etc.
- Review and approval of the internal capital targets and internal leverage ratio targets of the Group for 2024 and beyond
- Review of reports on anti-money laundering related matters
- Review of reports on the independent assessment of the Bank's information and technology system related to its emerging and existing e-banking services
- Review of half-yearly progress reports of Regtech development

### ◉ Sustainability Committee

The Sustainability Committee oversees the development and implementation of the Bank's sustainability strategy and to make recommendations on ESG related matters to ensure sustainable growth of the Bank. The Bank has made available on its website the prevailing Terms of Reference of the Sustainability Committee.

The Sustainability Committee currently has four members as named below:

- Mr. Charles Chi Man MA (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director);
- Mr. David Sek-chi KWOK (Executive Director); and
- Mr. Mong-ting CHONG (Deputy Chief Executive).

The Sustainability Committee has appointed a Sustainability Working Group comprising of senior executives of the Bank to carry out tasks as defined by the Committee. Members of the Sustainability Working Group are regular attendees at the Committee meetings.

The following is a summary of the major tasks performed by the Sustainability Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Sustainability Committee
- Review and approval of the Terms of Reference of the Sustainability Working Group
- Review of reports on Sustainability Initiatives by the Sustainability Working Group on a regular basis
- Review and making recommendations to the Board for approval of the Materiality Assessment results
- Review and making recommendations to the Board for approval of the Sustainability Vision Statement, Sustainability Policy, Climate Risk Management Framework, Sustainability Key Performance Indicators and 2022 Sustainability Report

### Senior management-level Committees

#### ◉ Asset and Liability Committee

The Asset and Liability Committee meets at least monthly to deal with issues related to the market, interest rate, liquidity and counterparty credit risk of the Bank and reports directly to the Executive Committee, Audit Committee and Risk Committee.

The members of the Asset and Liability Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer and Division Chiefs/Heads responsible for compliance, risk management, finance, treasury, corporate banking, retail banking, human resources, branches operations, and compliance and administration of the Bank and/or their designee(s).

#### ◉ Credit Committee

The Credit Committee meets at least monthly to deal with all credit risk-related issues of the Group such as establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions, and etc. The Credit Committee reports directly to the Executive Committee, Audit Committee and Risk Committee.

The members of the Credit Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer, Head of Credit, Head of Credit Appraisal, Head of Credit Control, Head of Credit Review & Policy and the Division Chiefs/Heads responsible for treasury, corporate banking, and retail banking of the Bank and/or their designee(s).

### • **Compliance and Operational Risk Management Committee**

The Compliance and Operational Risk Management Committee meets at least monthly to deal with major aspects of the Bank's risks, including but not limited to operational, legal, compliance and regulatory, reputation and conduct, technology and business continuity risks and to define the proper risk strategies within the Bank's overall business objectives and appetite as well as the framework of the Bank's policies and the Terms of Reference of this Committee. The Compliance and Operational Risk Management Committee reports directly to the Executive Committee, Audit Committee and Risk Committee.

The members of the Compliance and Operational Risk Management Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer and Division Chiefs/Heads responsible for legal, compliance, risk management, finance, treasury, information technology, human resources, retail banking, corporate banking, branches operations, compliance and administration, operations centres, and bank premises of the Bank and/or their designee(s).

### **Directors' Securities Transactions**

The Board has not adopted code provision C.1.3 of the CG Code in relation to the setting up of written guidelines for Directors and relevant employees in respect of their dealings in the Bank's securities as the Bank's shares are not publicly listed.

### **Accountability and Audit**

#### **Directors' Responsibility in relation to Financial Reporting**

The Directors are responsible for presenting a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. As such, the Management assists the Directors to discharge their duties through the submission of monthly financial and business updates of the Bank. Representatives of the Senior Management of core business lines and control functions are invited to attend Board/Board Committee meetings as appropriate to provide sufficient explanation and information, critical insights and analyses of the Bank's affairs relating to their areas of expertise to the Directors.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual and interim results are reviewed by the Audit Committee and announced in a timely manner. As at 31 December 2023, the Directors of the Bank were not aware of any material uncertainties relating to events which may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the Group's financial statements have been prepared on a going concern basis.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified during the course of the audit are set out in the Independent Auditor's Report attached to the Bank's 2023 Consolidated Financial Statements.



### Risk Management and Internal Controls

The Board is responsible for overseeing risk management and internal control systems including financial, operational and compliance controls, with its primary role to review the effectiveness of these systems in achieving business objectives and safeguarding shareholders' interests and the Group's assets. Management is accountable for the day-to-day operations of risk management and has to provide a confirmation to the Board regarding the effectiveness of these systems.

The Group is fully committed to upholding good corporate practices and the internal control systems being reviewed regularly. In particular, a well-established organizational structure and comprehensive policies and procedures are in place for ensuring effective checks and balances; addressing possible gaps in achieving business objectives; safeguarding assets against unauthorized use or disposition; maintaining proper accounting records and ensuring the reliability of financial information used within the business or for publication. The policies and procedures, providing reasonable but not absolute assurance against material errors, losses or fraud, are designed to ensure compliance with applicable laws, rules and regulations.

Pursuant to a risk-based approach, the Group has established relevant committees and related departments responsible for identifying, assessing and managing key risks facing the Bank. These risks include credit risk, market risk, liquidity risk, operational risk, interest rate risk, strategic risk, legal, regulatory and compliance risk, technology risk, reputational risk and climate-related risks through implementing appropriate policies and procedures. Periodic reports on risk exposure and risk management activities are submitted to the Executive Committee and Risk Committee through the Asset and Liability Committee, Credit Committee, and Compliance and Operational Risk Management Committee and ultimately to the Board for monitoring the risk management and internal control systems. The Group's risk management strategies, risk tolerance and risk appetite are reviewed by the Risk Committee and approved by the Board.

The Audit Committee holds the responsibility of reviewing the external auditor's reports, which include recommendations on internal control, as part of the annual audit process. Furthermore, the Audit Committee reviews the Bank's internal audit findings in a timely manner. Given the highly regulated nature of the banking industry in Hong Kong, the Group has implemented a robust control framework to ensure compliance with relevant laws, rules, regulations and supervisory standards. Latest regulatory requirements are promptly brought to the attention of responsible units with revised guidelines and advices delivered for their implementation and strict adherence. Key compliance alerts and information are regularly reported to the Senior Management and the Board. Sufficient resources are allocated to ensure proper legal and regulatory compliance.

The Group attaches high importance on providing employees with a channel to report any unlawful or unethical behavior. To facilitate this, the Group has established a Whistleblowing Policy that outlines a confidential whistleblowing channel and investigation mechanism. This policy enables employees to raise their genuine concerns in good faith about malpractice, impropriety, misconduct or unethical activity that they could compromise the interests of the customers, staff, shareholders, the public or the Group's image and reputation. All information received is treated confidentially, and the identity and interests of all whistleblowers are protected.

## Internal Audit

The Internal Audit function plays an important role in reinforcing the “Three Lines of Defence” risk management structure of the Bank. As the third line of defence, the Internal Audit function provides independent assurance to the Audit Committee and the Board as to whether the risk management and internal control systems of the Group are adequate and effective. It has unfettered access to Senior Management for seeking information and explanation on audit matters. The Chief Auditor of the Bank who leads a team with professional expertise reports directly to the Audit Committee.

The Internal Audit function adopts a risk-based approach in its auditing activities. It sets its internal audit plan annually for approval of the Audit Committee based on risk assessment methodology which assists in prioritizing audit resources and focusing on material control systems and higher risk areas. The review results are reported regularly to the Audit Committee. The Internal Audit function also verifies the rectification and implementation effectiveness taken by the Group on the observations and recommendations made by external auditors and regulatory bodies.

## External Auditor

The Group’s external auditor is PricewaterhouseCoopers. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, including their remuneration and terms of engagement. The Audit Committee also regularly reviews and monitors the independence and objectivity as well as the effectiveness of the audit process of the external auditor.

To safeguard the independence of the external auditor, the Bank has established the Policy on Non-audit Services, setting out the criteria for appointing the external auditor to provide non-audit-related services.

The following table shows remuneration paid and payable to the external auditor:

(HK\$'000)	2023	2022
Audit services	11,859	12,577
Non-audit-related services <sup>(Note)</sup>	7,492	8,866
	<b>19,351</b>	<b>21,443</b>

Note: Non-audit-related services include quarterly reviews under Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, tax and independent assessments on ad hoc projects for regulatory purposes.

The Board, on recommendation by the Audit Committee, will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the Annual General Meeting of the Bank to be held on 24 April 2024.

### Company Secretary

The Company Secretary is an employee of the Bank who provides support to the Board by ensuring timely information is provided; Board procedures are followed; and the AoA, relevant rules and regulations including SPM CG-1 and the CG Code are complied with. The Company Secretary also advises the Board on corporate governance matters and facilitates provision of the induction programme to new Directors and continuous professional development to existing Directors.

During the year, the Company Secretary undertook over 15 hours of relevant professional training.

### Employees

As of 31 December 2023, the total headcount (full-time employees only) of the Group was 1,913.

Ensuring we have the right talent is critical to the Bank's success and we did so by embedding the talent development goals in leaders' key performance indicator, strengthening our talent pipelines by applying psychometric assessment with tailored development opportunities and fine-tuning our recruitment strategy, promoting internally and making the Bank a more attractive place to work.

Over the past year, we have been working hard to foster a "Green" culture and we are developing a range of sustainability-related resources and initiatives to help equip our employees with the mentality, knowledge and skills to be able to support sustainability objectives.

We provided mandatory training that educates all employees on our approach to sustainability. In 2023, we launched various training to equip selected colleagues with key skills to improve their understanding of topics including climate risk, green finance and global sustainable trends and opportunities. We launched a staff recognition campaign that encouraged employees to collaborate in contributing to ESG related initiatives with 69 submissions, attend selective learning with 15 ESG courses offered and etc. The campaign was well supported with over 100,000 reward points given as recognition.

We continued to help our colleagues develop future-ready skills and invest in our technology and operational capabilities to drive operating efficiency and to improve customer experience. In 2023, the total in-house learning hours spent on enhancing digital and sustainability future-ready skills increased to approximately 24,989 hours, up from 24,438 hours in 2022.

### Shareholders' Rights and Communications

Each shareholder currently has director representation on the Board through which effective communication with shareholders regarding the business and affairs of the Bank is maintained. Shareholders are well informed of their rights to call an extraordinary general meeting of the Bank, the procedures by which enquiries may be presented to the Board and proposals may be put forward at shareholders' meetings as stipulated under Sections 566 to 568 and 615 of the Companies Ordinance (Cap. 622). The Corporate Secretary acts as the contact to enable these enquiries or proposals be properly raised.

The Chairman of the Board is committed to maintaining constant communication with the shareholders to ensure that they have fair and timely access to the Bank's information. All announcements, regulatory disclosures, annual/interim reports, sustainability reports and press releases of the Bank are available on the corporate website ([www.shacombank.com.hk](http://www.shacombank.com.hk)). As the Bank is a non-listed public limited company and the representatives of the four shareholders meet and communicate regularly, the Board is of the view that there is effective communication with shareholders regarding the business and affairs of the Bank through their director representation on the Board, and considers it unnecessary for the time being to set up a shareholders' communication policy as stipulated in paragraph L of Part 1 of the CG Code but the matter would be evaluated whenever necessary.

Hong Kong, 15 March 2024

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED

(Incorporated in Hong Kong with limited liability)

## Opinion

### *What we have audited*

The consolidated financial statements of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 55 to 144, comprise:

- the consolidated statement of financial position as at 31 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 statement of cash flows 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 31 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 ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### *Independence*

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter identified in our audit is related to the measurement of expected credit losses of loans and advances to customers.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED (CONTINUED)

## Key Audit Matters (Continued)

### *Measurement of expected credit losses ("ECL") of loans and advances to customers*

As at 31 December 2023, the Group recorded loan impairment allowances of HK\$387 million, in respect of the total gross loan balance of HK\$89,625 million. The impairment allowances of loans and advances to customers are elaborated in Notes 3.1 and 18.

The determination of the expected credit losses involves complex methodologies and significant management judgment. Management has assessed the appropriateness of the overall ECL methodology and key assumptions. Management continues to determine the staging for its financial assets based on changes in credit quality since initial recognition by identifying Significant Increase in Credit Risk ("SICR") and default events. ECL is measured by the calculation model depending on the stage of the financial assets, which incorporated forward-looking key macroeconomic variables.

Key judgments and estimates in respect of ECL include:

- (1) ECL methodology, key parameters and assumptions applied;
- (2) Staging of the financial assets, including management's determination of SICR and default;
- (3) Economic indicators for forward-looking measurement, and the application of economic scenarios; and
- (4) The estimated future cash flow for loans and advances to customers in stage 3.

ECL of loans and advances to customers was considered a key audit matter due to the material balance of the Group's ECL on loans and advances to customers and the higher inherent risk in relation to the degree of estimation uncertainty, involvement of management judgments and use of various parameters and data inputs in such measurement.

### *How our audit addressed the Key Audit Matter*

We obtained an understanding of the management's internal control and assessment process behind ECL and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud.

We obtained an understanding, evaluated and tested the controls that management has established to support their measurement of ECL. Furthermore we performed substantive audit procedures to assess the significant judgments, assumptions and disclosures. Our key procedures are set out below:

- We observed and inspected evidence of management governance and ongoing monitoring over ECL models including model performance and regular model validation, and management overlay adjustments (if any). We assessed the appropriateness of model validation and regular monitoring results with the support of internal credit model experts. We also validated the accuracy of data inputs and parameters used in the ECL model;

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED (CONTINUED)

## Key Audit Matters (Continued)

*How our audit addressed the Key Audit Matter (Continued)*

- We observed and inspected evidence of Credit Committee's oversight and regular monitoring of the overall credit quality. In addition we observed and inspected regular post draw-down monitoring of credit quality by monitoring units which are independent from the loan initiation units, including identification of SICR and defaults. We tested on a sample basis, management's post draw-down credit reviews and assessed the appropriateness of management's identification of SICR or defaults by considering financial information and non-financial information of the borrowers, relevant external evidence and other factors. Our samples included borrower groups from higher risk industries, and new exposures entered watchlist during the year;
- We inspected evidence of regular review and approval of key management judgments over forward-looking measurement. Additionally, we evaluated and challenged management's forward-looking measurement, including management's analysis of their selection of economic indicators, economic scenarios and forecasts applied, and assessed the reasonableness of the prediction of economic indicators;
- We tested, on a sample basis, the ECL calculation of stage 3 loans by challenging management's assumptions in deriving the future cashflows based on borrowers' circumstances, objective evidence of inputs for impairment calculation (including valuation of collateral and macroeconomic variable estimates) with the support of our internal valuation experts (where necessary) and our industry knowledge; and
- We assessed the adequacy of the disclosures related to ECL of loans and advances to customers in the Annual Report 2023 in the context of the applicable financial reporting framework.

Based on the results of the above testing, we considered that management's judgments and assumptions applied in determining the ECL of loans and advances to customers were supportable by the evidence obtained and procedures performed.

## Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED (CONTINUED)

## 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 are 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with 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;

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED (CONTINUED)

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. NG Wai Ying.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 15 March 2024



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December	
		2023	2022 (restated)
Interest income	6	9,987,780	6,022,814
Interest expense	6	(5,591,406)	(2,136,023)
<b>Net interest income</b>		<b>4,396,374</b>	3,886,791
Fee and commission income		644,939	696,537
Fee and commission expense		(58,607)	(51,116)
<b>Net fee and commission income</b>	7	<b>586,332</b>	645,421
Net trading income	8	288,876	246,423
Net gains from disposal of investment securities at fair value through other comprehensive income		2,523	24,026
Dividend income from investment securities at fair value through other comprehensive income		204,719	207,008
Other operating income	9	124,133	130,425
Net income from insurance services	10	4,859	11,450
Operating expenses	11	(1,850,190)	(1,786,054)
Credit impairment losses	12	(1,657,127)	(276,598)
<b>Operating profit</b>		<b>2,100,499</b>	3,088,892
Share of net losses of associates and joint venture	25	(34,782)	(50,287)
<b>Profit before income tax</b>		<b>2,065,717</b>	3,038,605
Income tax expense	14	(497,200)	(615,816)
<b>Profit for the year</b>		<b>1,568,517</b>	2,422,789
<b>Attributable to:</b>			
Equity holders of the Bank		1,561,602	2,416,573
Non-controlling interests		6,915	6,216
		<b>1,568,517</b>	2,422,789

The notes on pages 61 to 144 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31 December	
	2023	2022 (restated)
<b>Profit for the year</b>	<b>1,568,517</b>	2,422,789
<b>Other comprehensive income/(loss)</b>		
<b><u>Items that may be reclassified to profit or loss</u></b>		
Currency translation difference arising from overseas operations	(19,808)	(195,320)
Investment securities at fair value through other comprehensive income		
– Change in fair value	1,185,778	(2,326,173)
– Change in credit impairment losses recognised in profit or loss	(4,840)	(7,092)
– Fair value changes transferred to profit or loss on disposal	(2,523)	(24,026)
– Deferred income tax	(195,237)	387,782
<b><u>Items that will not be reclassified to profit or loss</u></b>		
Equity investments at fair value through other comprehensive income		
– Change in fair value	384,143	(693,772)
– Deferred income tax	(66,073)	(34,008)
Share of reserves of associates and joint venture	135	–
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>1,281,575</b>	(2,892,609)
<b>Net comprehensive income/(loss) for the year</b>	<b>2,850,092</b>	(469,820)
<b>Attributable to:</b>		
Equity holders of the Bank	2,843,177	(476,406)
Non-controlling interests	6,915	6,586
<b>Net comprehensive income/(loss) for the year</b>	<b>2,850,092</b>	(469,820)

The notes on pages 61 to 144 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December	
		2023	2022 (restated)
<b>ASSETS</b>			
Cash and balances with banks	16	60,451,371	44,796,626
Placements with banks	17	22,339,251	17,645,562
Loans and advances to customers	18	89,238,461	95,995,971
Financial assets at fair value through profit or loss	19	1,054,988	970,847
Derivative financial instruments	20	726,213	552,801
Investment securities at fair value through other comprehensive income	21	40,413,030	51,277,567
Investment securities at amortised cost	22	8,009,407	4,728,167
Properties for sale	23	863,718	756,643
Investments in associates and joint venture	25	431,020	487,522
Properties and equipment	26	2,384,013	2,456,376
Investment properties	27	984,884	993,778
Deferred income tax assets	32	432,899	486,029
Other assets	28	2,615,289	2,257,639
<b>TOTAL ASSETS</b>		<b>229,944,544</b>	<b>223,405,528</b>
<b>LIABILITIES</b>			
Deposits and balances from banks		5,066,976	7,471,442
Deposits from customers	29	179,008,632	176,501,730
Derivative financial instruments	20	749,830	598,173
Subordinated debts	30	5,041,686	2,328,890
Other liabilities	31	3,559,900	2,776,038
Current income tax liabilities		397,698	185,851
Deferred income tax liabilities	32	9,001	7,315
<b>TOTAL LIABILITIES</b>		<b>193,833,723</b>	<b>189,869,439</b>
<b>EQUITY</b>			
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Share capital	33	2,000,000	2,000,000
Retained earnings		25,024,409	23,738,484
Reserves	34	8,976,473	7,694,221
		<b>36,000,882</b>	<b>33,432,705</b>
Non-controlling interests in equity		109,939	103,384
<b>TOTAL EQUITY</b>		<b>36,110,821</b>	<b>33,536,089</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>229,944,544</b>	<b>223,405,528</b>

Approved and authorised for issue by the Board of Directors on 15 March 2024.

**Stephen Ching Yen LEE**  
Chairman

**John Con-sing YUNG**  
Director

**Gordon Che Keung KWONG**  
Director

**David Sek-chi KWOK**  
Managing Director & Chief Executive

The notes on pages 61 to 144 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings		
<b>As at 31 December 2021 as originally presented</b>		2,000,000	10,515,909	21,608,831	96,627	34,221,367
Changes in accounting policies	2.1(c)	–	3,813	93,558	651	98,022
<b>Restated as at 1 January 2022</b>		2,000,000	10,519,722	21,702,389	97,278	34,319,389
<b>Profit for the year (restated)</b>		–	–	2,416,573	6,216	2,422,789
<b>Other comprehensive income/(loss) net of tax (restated)</b>		–	(2,825,501)	(67,478)	370	(2,892,609)
Net change in fair value of investment securities at fair value through other comprehensive income	34	–	(2,697,659)	–	370	(2,697,289)
Currency translation difference arising from overseas operations	34	–	(128,156)	(67,164)	–	(195,320)
Share of reserves of associates and joint venture	34	–	314	(314)	–	–
<b>Net comprehensive income/(loss) for the year (restated)</b>		–	(2,825,501)	2,349,095	6,586	(469,820)
Payment of dividend relating to 2021		–	–	(313,000)	(480)	(313,480)
<b>Restated as at 31 December 2022 and 1 January 2023</b>		<b>2,000,000</b>	<b>7,694,221</b>	<b>23,738,484</b>	<b>103,384</b>	<b>33,536,089</b>
<b>Profit for the year</b>		–	–	1,561,602	6,915	1,568,517
<b>Other comprehensive income/(loss) net of tax</b>		–	1,282,252	(677)	–	1,281,575
Net change in fair value of investment securities at fair value through other comprehensive income	34	–	1,301,248	–	–	1,301,248
Currency translation difference arising from overseas operations	34	–	(19,613)	(195)	–	(19,808)
Share of reserves of associates and joint venture	34	–	617	(482)	–	135
<b>Net comprehensive income/(loss) for the year</b>		–	1,282,252	1,560,925	6,915	2,850,092
Payment of dividend relating to 2022		–	–	(275,000)	(360)	(275,360)
<b>As at 31 December 2023</b>		<b>2,000,000</b>	<b>8,976,473</b>	<b>25,024,409</b>	<b>109,939</b>	<b>36,110,821</b>

The notes on pages 61 to 144 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December	
		2023	2022 (restated)
<b>Cash flows from operating activities</b>			
Profit before income tax		2,065,717	3,038,605
Share of net losses of associates and joint venture	25	34,782	50,287
Credit impairment losses	12	1,657,127	276,598
Depreciation expenses		223,307	240,734
Amortisation of computer software	28	3,267	–
Net losses/(gains) from disposal of equipment	9	33	(25)
Net gains from disposal of investment securities at fair value through other comprehensive income		(2,523)	(24,026)
Interest income on investment securities at amortised cost and at fair value through other comprehensive income	6	(1,046,793)	(1,098,329)
Interest expense on subordinated debts	6	276,059	193,302
Interest expense on lease liabilities	6	8,816	4,068
Dividend income on investment securities at fair value through other comprehensive income		(204,719)	(207,008)
Hong Kong profits tax paid		(85,434)	(338,958)
Overseas tax paid		(446,791)	(295,060)
Effect of exchange rate changes		(141,270)	395,834
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>2,341,578</b>	<b>2,236,022</b>
Changes in operating assets and liabilities:			
– Net decrease/(increase) in balances with banks with original maturity beyond 3 months		2,354,857	(5,016,875)
– Net decrease/(increase) in placements with banks with original maturity beyond 3 months		7,213,751	(3,228,357)
– Net (increase)/decrease in financial assets at fair value through profit or loss		(84,141)	1,133,086
– Net (increase)/decrease in derivative financial instruments		(21,755)	111,617
– Net decrease/(increase) in loans and advances to customers		5,372,726	(1,518,786)
– Net increase in other assets		(298,174)	(701,666)
– Net decrease in deposits and balances from banks		(2,402,686)	(1,254,904)
– Net increase/(decrease) in deposits from customers		2,489,179	(4,990,875)
– Net increase in other liabilities		729,698	400,586
<b>Net cash generated from/(used in) operating activities</b>		<b>17,695,033</b>	<b>(12,830,152)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December	
		2023	2022 (restated)
<b>Cash flows from investing activities</b>			
Interest received on investment securities at amortised cost and at fair value through other comprehensive income		1,044,383	1,278,957
Dividends received on investment securities at fair value through other comprehensive income		204,719	207,008
Dividends received from associates and joint venture	25	21,855	25,415
Purchases of properties and equipment		(42,716)	(59,803)
Additions of properties for sale		(107,075)	(72,719)
Additions of computer software	28	(40,701)	–
Proceeds from sale of equipment		23	32
Purchases of investment securities at amortised cost and at fair value through other comprehensive income		(14,781,751)	(19,586,913)
Proceeds from sale and redemption of investment securities at amortised cost and at fair value through other comprehensive income		25,226,415	42,506,536
<b>Net cash generated from investing activities</b>		<b>11,525,152</b>	<b>24,298,513</b>
<b>Cash flows from financing activities</b>			
Issuance of subordinated debts	35	2,714,169	–
Redemption of subordinated debts	35	–	(1,952,875)
Interest paid on subordinated debts		(204,630)	(190,730)
Payment of lease liabilities	35	(109,133)	(115,350)
Dividend paid to equity holders		(275,000)	(313,000)
Dividend paid to non-controlling interests		(360)	(480)
<b>Net cash generated from/(used in) financing activities</b>		<b>2,125,046</b>	<b>(2,572,435)</b>
<b>Net increase in cash and cash equivalents</b>		<b>31,345,231</b>	<b>8,895,926</b>
Cash and cash equivalents at beginning of the year		38,436,685	30,342,667
Effect of exchange rate changes on cash and cash equivalents		(78,230)	(801,908)
<b>Cash and cash equivalents at end of the year</b>		<b>69,703,686</b>	<b>38,436,685</b>
Represented by:			
Cash and balances with banks with less than 3 months' original maturity	16	55,531,208	37,521,480
Placements with banks with less than 3 months' original maturity	17	12,880,610	915,205
Debt securities – Exchange Fund Bills with less than 3 months' original maturity		1,291,868	–
		<b>69,703,686</b>	<b>38,436,685</b>
Cash flows from operating and investing activities included:			
Interest received		9,627,297	5,708,837
Interest paid		(4,742,907)	(1,519,202)

The notes on pages 61 to 144 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 1 GENERAL INFORMATION

Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together, the "Group") are engaged in the provision of banking and related financial services in Hong Kong, the United States, the United Kingdom and the Mainland China.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong.

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which is incorporated in Taiwan.

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK\$'000), unless otherwise stated and were approved for issue by the Board of Directors on 15 March 2024.

## 2 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the accounting policy changes that are detailed in Note 2.1(c).

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment securities at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group's accounting policies. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### (a) New and amended standards adopted by the Group for the year ended 31 December 2023

A number of new and amended standards become applicable for the current year. They do not have significant impact to the financial statements of the Group, except for the accounting policy changes that are detailed in Note 2.1(c).

	Effective for accounting periods beginning on or after
HKFRS 17 "Insurance Contracts"	1 January 2023
Amendments to HKAS 1 – Disclosure of Accounting Policies and HKFRS Practice Statement 2 – Making Materiality Judgements	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a single transaction	1 January 2023
Amendments to HKAS 12 – International Tax Reform – Pillar Two Model Rules	1 January 2023

The amendments to HKAS 1 – Disclosure of Accounting Policies aim to require entities to disclose their material rather than their significant accounting policies. The amendments define what is "material accounting policy information" and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### (a) New and amended standards adopted by the Group for the year ended 31 December 2023 (Continued)

To support this amendment, the HKICPA also amended HKFRS Practice Statement 2 – Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The application of the amendments does not have a material impact on the Group's financial statements.

The amendments to HKAS 12 "International Tax Reform – Pillar Two Model Rules" introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. In the operational regions where the Group is currently engaged, United Kingdom has enacted the legislation on Pillar Two, being first applied to fiscal year 2024. The Group is in the process of assessing the impact of the amendments on the Group's financial statements.

#### (b) New and amended standards issued but not yet effective for the year ended 31 December 2023

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024

The Group has not early adopted standard, interpretation or amendment that has been issued but is not yet effective for the year ended 31 December 2023.

#### (c) Changes in accounting policies

HKFRS 17 "Insurance Contracts" became effective for accounting periods beginning on or after 1 January 2023 and replaces HKFRS 4 "Insurance Contracts". It is applicable to the Bank's subsidiary Pafoong Insurance Company (Hong Kong) Limited and investment in associates namely Hong Kong Life Insurance Limited and BC Reinsurance Limited. The Group adopted HKFRS 17 retrospectively on 1 January 2023 with comparatives restated from 1 January 2022 by applying alternative transition methods where the full retrospective approach was impracticable.

In conjunction with the implementation of HKFRS 17, one associate has made use of the option to re-designate its debt securities at amortised cost and financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss.

HKFRS 17 establishes specific principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The Group's insurance and reinsurance contracts are accounted for under general measurement model or premium allocation approach depending on the type of contracts.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 2.1 Basis of preparation (Continued)

##### (c) Changes in accounting policies (Continued)

The impact of adopting HKFRS 17 and the re-designation option in accordance with HKFRS 9 on the Group's financial statements as at 1 January 2023 and 1 January 2022 are presented below.

(i) Reconciliation of consolidated statement of financial position balances as at 1 January 2023 from HKFRS 4 to HKFRS 17.

	HKFRS 4 31 December 2022	Remeasurement	HKFRS 17 1 January 2023
<b>ASSETS</b>			
Investments in associates and joint venture	414,706	72,816	487,522
Other assets	2,259,048	(1,409)	2,257,639
All other assets	220,660,367	–	220,660,367
<b>TOTAL ASSETS</b>	<b>223,334,121</b>	<b>71,407</b>	<b>223,405,528</b>
<b>LIABILITIES</b>			
Other liabilities	2,782,920	(6,882)	2,776,038
All other liabilities	187,093,401	–	187,093,401
<b>TOTAL LIABILITIES</b>	<b>189,876,321</b>	<b>(6,882)</b>	<b>189,869,439</b>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Share capital	2,000,000	–	2,000,000
Retained earnings	23,809,577	(71,093)	23,738,484
Reserves	7,547,028	147,193	7,694,221
	33,356,605	76,100	33,432,705
Non-controlling interests in equity	101,195	2,189	103,384
<b>TOTAL EQUITY</b>	<b>33,457,800</b>	<b>78,289</b>	<b>33,536,089</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>223,334,121</b>	<b>71,407</b>	<b>223,405,528</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 2.1 Basis of preparation (Continued)

##### (c) Changes in accounting policies (Continued)

(ii) Reconciliation of consolidated statement of financial position balances as at 1 January 2022 from HKFRS 4 to HKFRS 17.

	HKFRS 4 31 December 2021	Remeasurement	HKFRS 17 1 January 2022
<b>ASSETS</b>			
Investments in associates and joint venture	466,829	96,395	563,224
Other assets	1,669,618	(9,557)	1,660,061
All other assets	231,796,866	–	231,796,866
<b>TOTAL ASSETS</b>	<b>233,933,313</b>	<b>86,838</b>	<b>234,020,151</b>
<b>LIABILITIES</b>			
Other liabilities	2,426,108	(11,184)	2,414,924
All other liabilities	197,285,838	–	197,285,838
<b>TOTAL LIABILITIES</b>	<b>199,711,946</b>	<b>(11,184)</b>	<b>199,700,762</b>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Share capital	2,000,000	–	2,000,000
Retained earnings	21,608,831	93,558	21,702,389
Reserves	10,515,909	3,813	10,519,722
	34,124,740	97,371	34,222,111
Non-controlling interests in equity	96,627	651	97,278
<b>TOTAL EQUITY</b>	<b>34,221,367</b>	<b>98,022</b>	<b>34,319,389</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>233,933,313</b>	<b>86,838</b>	<b>234,020,151</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 2.1 Basis of preparation (Continued)

##### (c) Changes in accounting policies (Continued)

(iii) Reconciliation of consolidated statement of profit or loss for the year ended 31 December 2022 from HKFRS 4 to HKFRS 17.

	HKFRS 4	Remeasurement	HKFRS 17
Interest income	6,022,814	–	6,022,814
Interest expense	(2,136,023)	–	(2,136,023)
<b>Net interest income</b>	<b>3,886,791</b>	<b>–</b>	<b>3,886,791</b>
Fee and commission income	699,142	(2,605)	696,537
Fee and commission expense	(51,116)	–	(51,116)
<b>Net fee and commission income</b>	<b>648,026</b>	<b>(2,605)</b>	<b>645,421</b>
Net trading income	246,423	–	246,423
Net gains from disposal of investment securities at fair value through other comprehensive income	24,026	–	24,026
Dividend income from investment securities at fair value through other comprehensive income	207,008	–	207,008
Other operating income	130,425	–	130,425
Net earned insurance premium	37,506	(37,506)	–
Net insurance claims incurred and movement in policyholders' liabilities	(28,878)	28,878	–
Net income from insurance services	–	11,450	11,450
Operating expenses	(1,789,683)	3,629	(1,786,054)
Credit impairment losses	(276,598)	–	(276,598)
<b>Operating profit</b>	<b>3,085,046</b>	<b>3,846</b>	<b>3,088,892</b>
Share of net profits/(losses) of associates and joint venture	116,573	(166,860)	(50,287)
<b>Profit before income tax</b>	<b>3,201,619</b>	<b>(163,014)</b>	<b>3,038,605</b>
Income tax expense	(615,816)	–	(615,816)
<b>Profit for the year</b>	<b>2,585,803</b>	<b>(163,014)</b>	<b>2,422,789</b>
<b>Attributable to:</b>			
Equity holders of the Bank	2,581,125	(164,552)	2,416,573
Non-controlling interests	4,678	1,538	6,216
	<b>2,585,803</b>	<b>(163,014)</b>	<b>2,422,789</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 2.1 Basis of preparation (Continued)

##### (c) Changes in accounting policies (Continued)

(iv) Reconciliation of consolidated statement of comprehensive income for the year ended 31 December 2022 from HKFRS 4 to HKFRS 17.

	HKFRS 4	Remeasurement	HKFRS 17
<b>Profit for the year</b>	2,585,803	(163,014)	2,422,789
<b>Items that may be reclassified to profit or loss</b>			
Share of reserves of associates and joint venture	(137,604)	137,604	–
All other items that may be reclassified to profit or loss	(2,164,829)	–	(2,164,829)
<b>Items that will not be reclassified to profit or loss</b>			
Share of reserves of associates and joint venture	(5,677)	5,677	–
All other items that will not be reclassified to profit or loss	(727,780)	–	(727,780)
<b>Other comprehensive income/(loss) for the year, net of tax</b>	(3,035,890)	143,281	(2,892,609)
<b>Net comprehensive loss for the year</b>	(450,087)	(19,733)	(469,820)
<b>Attributable to:</b>			
Equity holders of the Bank	(455,135)	(21,271)	(476,406)
Non-controlling interests	5,048	1,538	6,586
<b>Net comprehensive loss for the year</b>	(450,087)	(19,733)	(469,820)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31 December 2023.

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (b) Associates and joint ventures

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

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, and are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Group transacts with its associates or joint ventures, profits and losses resulting from such transactions are recognised in the Group's consolidated financial statements only to the extent of interests in the associates or joint ventures that are not related to the Group.

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK\$'000), which is the Bank's functional and presentation currency.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.3 Foreign currency translation (Continued)

#### (b) Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

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

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as fair value through other comprehensive income ("FVOCI"), a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss ("FVTPL"), are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as FVOCI investments, are included in other comprehensive income.

#### (c) Group companies and overseas branches

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to other comprehensive income. When a foreign operation is disposed of, or partially disposed of, such exchange differences that were recorded in equity are recognised in the statement of profit or loss as part of the gain or loss on sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.4 Fee and commission income and expense

Fee and commission income for the reporting period is recognised at a point in time when the services are rendered. Loan fees for servicing a loan are recognised as fee income. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually over the tenor of the contract.

### 2.5 Dividend income

Dividends are recognised in the statement of profit or loss when the entity's right to receive payment is established.

### 2.6 Financial assets, financial liabilities, interest income and expense

#### Measurement methods

##### Initial recognition and measurement

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

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

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

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### Classification and subsequent measurement

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

- Amortised cost;
- FVOCI; or
- FVTPL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.6 Financial assets, financial liabilities, interest income and expense (Continued)

#### Classification and subsequent measurement (Continued)

##### Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

- (a) **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by ECL recognised. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.
- (b) **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.
- (c) **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net in the statement of profit or loss within "Net trading income" in the period in which it arises.

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.6 Financial assets, financial liabilities, interest income and expense (Continued)

#### Classification and subsequent measurement (Continued)

##### Equity instruments

The Group subsequently measures equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity security at FVOCI. Where the Group's management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the instruments. Dividends from such instruments continue to be recognised in profit or loss as dividend income when the Group's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the "Net trading income" in the statement of profit or loss.

##### Modification of financial assets

If the borrower is in financial difficulty, where the terms of the financial assets are modified and being substantially different to the original terms, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Difference in the carrying amount is also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment.

##### Derecognition other than on a modification

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

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

- (i) does not have obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.6 Financial assets, financial liabilities, interest income and expense (Continued)

#### Impairment of financial assets

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.1.1 provides more detail of how the ECL is measured.

#### Financial liabilities

##### Classification and subsequent measurement

The Group classifies its financial liabilities 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 and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). Should such a presentation create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and
- financial liabilities arising from the transfer of financial assets which did not qualify for derecognition: when the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability.

#### Derecognition

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.6 Financial assets, financial liabilities, interest income and expense (Continued)

#### Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as financial assets or financial liabilities at fair value through profit or loss, are recognised within “interest income” and “interest expense” in the statement of 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 asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes the transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (“POCI”) financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

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

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that have subsequently become credit-impaired (or “Stage 3”), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

### 2.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 2.8 Financial guarantee contracts and loan commitments

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

The fair value of the financial guarantee contracts is initially recognised as the premium received in accordance with HKFRS 15. Subsequent to initial recognition, the Group has taken into account the amount of expected credit loss under HKFRS 9.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 3.1.1). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.9 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, yield curves, FX rates, volatilities and counterparty spreads) existing at the end of each reporting period.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation techniques are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary, particularly in view of the current market developments.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

### 2.10 Properties and equipment

#### (a) Land and bank premises

Land and buildings comprise mainly branches and offices. Leasehold land and buildings are stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Depreciation of land and buildings is provided annually by charging a sum sufficient to write down the cost of the land and buildings systematically. The land is depreciated over the lease term. The depreciation of the buildings is based on management's appraisal of their conditions, which includes estimations of the remaining useful lives, which are not expected to exceed 40 years.

Interest in freehold land is stated at cost.

#### (b) Furniture, fittings and equipment

Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation of furniture, fittings and equipment are calculated to write off the costs of the assets over their estimated useful lives on a straight line basis over 4 to 10 years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of profit or loss during the financial period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.10 Properties and equipment (Continued)

#### (c) Property under development

Leasehold land for property under development is stated at historical cost, less accumulated depreciation and impairment losses, and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion. For depreciation of leasehold land for properties under development, please refer to Note 2.10(a) above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount of the relevant assets and are recognised in the statement of profit or loss.

### 2.11 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties are land and office buildings. Investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the unexpired period of the lease term for land and the shorter of the leases or 40 years for buildings.

### 2.12 Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised and the anticipated costs to completion.

### 2.13 Leases

Leases are recognised as a right-of-use asset and a corresponding liability on the date when the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost (i.e. interest on lease liabilities). The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The accounting for leasehold land remains the same. Please refer to Note 2.10 (a) for details.

### 2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's entities operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

### 2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.16 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be the individuals or entities.

### 2.17 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities, for a fee and commission income, that result in the holding or placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

### 2.18 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 most senior executive management 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse impacts on the Group's financial performance.

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

The Group has in place policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. One of the major functions of the Board of Directors is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board of Directors has delegated its powers to the Risk Committee, the Executive Committee, the Sustainability Committee, the Asset and Liability Committee, the Credit Committee and the Compliance and Operational Risk Management Committee for the oversight of major functional areas. While the risk appetite of the Group is approved by the Board of Directors, risk control limits are approved, reviewed, and monitored regularly by various Board-level specialized committees. Risk Committee is further responsible for assisting the Board in ensuring adequate oversight of bank-wide risks, and advising the Board on high-level risk related matters, risk management strategies and risk governance of the Group, within the framework of the Group's policies. Senior management is always watchful for changes in economic, political and market conditions in which the Group operates and the inherent risks the Group faces.

The Risk Management Division and Credit Division are responsible for monitoring the overall risk management of the Group's operations. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. Prior to implementation of any new product or service, various analyses, testing, development and planning will be performed and its proposal will be approved by the Product/Service Governance Committee or Chief Executive. All of the above arrangements ensure that the risk management processes are operating effectively.

The Internal Audit Department is responsible for conducting independent review on the effectiveness of the Group's risk management and control environment.

### 3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date.

The Group has in place effective credit review, monitoring and control systems including an effective loan classification system that identify, monitor, and determine impairment allowance in a timely manner. Management therefore carefully manages the exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are reviewed and approved by the Board of Directors from time to time but at least annually.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Group has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with counterparties such as banks with which it undertakes credit activities.

#### 3.1.1 Expected credit loss measurement

The Group adopts a “three-stage” model in accordance with HKFRS 9 for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired at initial recognition is classified as “Stage 1” and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” though it has not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, it will be allocated to “Stage 3”;
- Financial instruments in Stage 1 have their expected credit loss (“ECL”) measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments at Stages 2 or 3 have their ECL measured on lifetime basis;
- ECL of financial instruments are measured by taking into consideration forward-looking information; and
- Purchased or originated credit-impaired (“POCI”) financial assets are those financial assets that are credit-impaired at initial recognition. Their ECL are always measured on lifetime basis.

The Group adopts the approach that utilises the Probability of Default (“PD”), Exposure at Default (“EAD”) and Loss Given Default (“LGD”) to estimate ECL of financial instruments. Simplified alternatives are applied to portfolios with small exposures or having difficulties in adopting this approach, such as other receivable.

To estimate PD, EAD and LGD, exposures are first segmented according to their product types and customer types so that each group contains exposures with similar risk characteristics and product specifications. The factors used for segmentation are outlined below:

- (i) Customers’ characteristics
- (ii) Product types
- (iii) Facilities’ utilization
- (iv) Loan to collateral ratios



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.1 Expected credit loss measurement (Continued)

The modelling approaches used for different segments vary and with the consideration of the following factors:

- (i) Portfolio size
- (ii) Historical behavioural data
- (iii) Data sufficiency

In assessing the ECL of financial instrument classified as Stage 3, the values of property-related collaterals are adjusted to the expected point of sales to reflect the probability weighted recoveries from the sales of properties. When ECL is not provided against the unsecured exposure, the rationale must be sufficient and clearly documented. For assessing the ECL for credit card advances in Stage 3, ECL shall be estimated by using their EAD and LGD.

#### Management overlay and judgements

For HKFRS 9 ECL calculation, the Group has implemented and applied management overlay above the modeled ECL. The management overlay methodologies and amounts are subject to regular robust review and governance processes to assess the adequacy and relevancy of such overlay. The management overlay includes items that are inevitably not precisely quantifiable and necessitate involvement of expert judgements, so as to account for model constraints, data limitation, exceptional events, etc. The management overlay methodologies constitute of allowing for reasonably sufficient impairment to the portfolios of the overseas branches.

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

##### 3.1.1.1 SICR

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- The borrower is more than 30 days past due on its contractual payments;
- The financial instrument is downgraded in the internal rating categories and there is an increase in PD more than predetermined thresholds since initial recognition; and
- Significant increase in credit risk since initial recognition with reference to external rating downgrade after initial recognition for treasury portfolio.

The Group applies practical expedient for treasury traded instruments that have low credit risk at the reporting date. The Group does not recognize the instrument's lifetime ECL when it is with low credit risk, overdue not more than 30 days and its issuer acquires satisfactory internal credit assessment on credit quality, irrespective of the change in credit risk from initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.1 Expected credit loss measurement (Continued)

##### 3.1.1.2 Definition of default and credit-impaired assets

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

##### *Quantitative criteria*

The borrower is more than 90 days past due on its contractual payments.

##### *Qualitative criteria*

The borrower meets unlikeliness-to-pay criteria, which indicates the borrower is in significant financial difficulty. These could be instances where:

- The financial instrument is restructured due to financial stress;
- The financial instrument is partially written off;
- The borrower is bankrupt;
- The borrower is unlikely to honour its credit obligation; and
- The instrument is tagged with Substandard, Doubtful or Loss in reference to the HKMA Loan Classification.

##### 3.1.1.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is calculated as the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

##### 3.1.1.4 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information by considering key economic variables identified by the Group that have impact on credit risk and ECL for the Group's portfolios.

These economic variables and their associated impact on the PD, EAD and LGD vary by the type of financial instruments. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Treasury Research team on a monthly basis as a projection of how the global economy will evolve over the next four years. Beyond these four years, the average portfolio default rate is adopted as the PD of the facilities and the last forecasted LGD is adopted for the remaining lifetime of the instrument.

In addition to the base economic scenario, the Group's Treasury Research team also provides two other plausible scenarios along with the assigned weightings as probability of occurrence under the current economic environment. The scenarios and their corresponding weightings are determined by a combination of model-based analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of. The probability weighted ECL is determined by applying each scenario on the financial instruments through running the relevant ECL models and multiplying the resulted ECLs by the appropriate scenario weighting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.1 Expected credit loss measurement (Continued)

##### 3.1.1.4 Forward-looking information incorporated in the ECL models (Continued)

###### *Economic variable assumptions*

The most significant economic variable assumptions used for the ECL estimate as at 31 December 2023 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2023	1Q-4Q 2024	1Q-4Q 2025	1Q-4Q 2026	1Q-4Q 2027
Hong Kong Gross Domestic Product ("GDP")	Base	4.7%	1.4% to 4.0%	2.4% to 2.9%	2.8% to 2.8%	2.8% to 2.8%
	Upside	6.1%	1.1% to 5.2%	2.7% to 3.1%	3.0% to 3.0%	3.0% to 3.0%
	Downside	1.2%	-3.0% to 0.4%	0.5% to 1.8%	1.7% to 1.7%	1.7% to 1.7%
United States GDP	Base	1.3%	-2.9% to 1.0%	1.5% to 1.5%	1.5% to 1.5%	1.5% to 1.5%
	Upside	2.5%	0.5% to 2.4%	2.5% to 2.5%	2.5% to 2.5%	2.5% to 2.5%
	Downside	0.5%	-2.2% to 0.1%	0.4% to 1.0%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	3.2%	3.3% to 3.4%	3.5% to 3.7%	3.6% to 3.6%	3.6% to 3.6%
	Upside	3.1%	3.2% to 3.3%	3.3% to 3.6%	3.4% to 3.4%	3.4% to 3.4%
	Downside	3.4%	3.8% to 5.6%	5.6% to 6.1%	6.1% to 6.1%	6.1% to 6.1%
United States unemployment rate	Base	3.9%	4.1% to 4.9%	4.5% to 4.8%	4.5% to 4.5%	4.5% to 4.5%
	Upside	3.6%	3.8% to 3.8%	4.0% to 4.0%	3.8% to 3.8%	3.8% to 3.8%
	Downside	4.2%	5.0% to 6.7%	5.4% to 5.7%	5.2% to 5.3%	5.2% to 5.2%
Hong Kong property price index	Base	-0.2%	-3.1% to 5.6%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	1.4%	4.5% to 7.4%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-3.2%	-10.4% to -8.9%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
United States house price index	Base	-2.8%	-3.3% to 2.1%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	-1.4%	-0.9% to 3.0%	2.4% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	-5.2%	-10.4% to -8.5%	0.8% to 0.8%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	-1.1%	1.2% to 1.2%	1.2% to 1.2%	1.2% to 1.2%	1.2% to 1.2%
	Upside	0.8%	1.9% to 2.0%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Downside	-5.5%	-13.3% to -4.1%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Mainland China house price index	Base	8.0%	1.0% to 4.4%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	11.3%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	2.7%	-9.6% to -3.7%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Hong Kong commercial building price index	Base	-0.2%	-3.1% to 5.6%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	1.4%	4.5% to 7.4%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-3.2%	-10.4% to -8.9%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%

The weightings assigned to each economic scenario as at 31 December 2023 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.1 Expected credit loss measurement (Continued)

##### 3.1.1.4 Forward-looking information incorporated in the ECL models (Continued)

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

The most significant economic variable assumptions used for the ECL estimate as at 31 December 2022 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2022	1Q-4Q 2023	1Q-4Q 2024	1Q-4Q 2025	1Q-4Q 2026
Hong Kong GDP	Base	-2.2%	-2.1% to 3.8%	2.4% to 3.2%	2.6% to 3.0%	2.8% to 2.8%
	Upside	-1.7%	-0.1% to 5.6%	2.6% to 3.4%	2.6% to 3.0%	3.0% to 3.0%
	Downside	-4.2%	-6.5% to 0.5%	2.5% to 3.0%	1.3% to 2.2%	1.7% to 1.7%
United States GDP	Base	-1.1%	-1.7% to -0.4%	1.5% to 2.4%	1.5% to 1.5%	1.5% to 1.5%
	Upside	-0.9%	-0.4% to 0.6%	0.5% to 2.5%	2.5% to 2.5%	2.5% to 2.5%
	Downside	-2.1%	-2.7% to -1.4%	-0.9% to 1.0%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	4.3%	4.3% to 4.6%	4.3% to 4.4%	3.8% to 4.2%	3.8% to 3.8%
	Upside	4.1%	4.1% to 4.2%	4.0% to 4.1%	3.6% to 3.9%	3.6% to 3.6%
	Downside	4.7%	4.9% to 6.2%	6.2% to 6.2%	6.2% to 6.3%	6.3% to 6.3%
United States unemployment rate	Base	4.0%	4.6% to 5.5%	5.2% to 5.5%	5.2% to 5.2%	5.2% to 5.2%
	Upside	3.8%	4.2% to 4.3%	3.9% to 4.2%	3.9% to 3.9%	3.9% to 3.9%
	Downside	4.1%	5.1% to 6.6%	6.2% to 6.4%	6.0% to 6.0%	6.0% to 6.0%
Hong Kong property price index	Base	-7.9%	-5.7% to 1.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	-2.8%	1.9% to 6.6%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-17.3%	-21.5% to -6.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
United States house price index	Base	-2.5%	-9.1% to -5.6%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	-1.6%	-4.9% to -0.3%	2.4% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	-5.8%	-9.9% to -7.8%	0.8% to 0.8%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	4.5%	-4.6% to -1.1%	1.2% to 1.2%	1.2% to 1.2%	1.2% to 1.2%
	Upside	9.3%	0.8% to 6.0%	1.9% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Downside	2.2%	-15.1% to -4.3%	-6.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Mainland China house price index	Base	-4.9%	0.4% to 2.0%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	1.3%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	-7.1%	-4.7% to 0.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Hong Kong commercial building price index	Base	-7.9%	-5.7% to 1.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	-2.8%	1.9% to 6.6%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-17.3%	-21.5% to -6.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%

The weightings assigned to each economic scenario as at 31 December 2022 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.1 Expected credit loss measurement (Continued)

##### 3.1.1.5 Sensitivity analysis

The output of the Group's ECL model takes into consideration forward-looking information and scenarios based on the market analysis prepared by the Group's Treasury Research team. The Group has applied appropriate weightings to the base case, upside and downside scenarios which are sources of sensitivity.

To assess the sensitivity of the ECL generated by models for the Group's Stage 1 and 2 exposures, two additional sensitivity scenarios (scenarios 1 and 2 below) have been drawn up. Should the weightings applied by the Group be changed to those of the sensitivity scenarios as follows, the ECL amount would have increased/decreased within a range of 5%.

2023			
	Base	Upside	Downside
Weightings applied by the Group	60%	20%	20%
Sensitivity scenario 1	40%	30%	30%
Sensitivity scenario 2	80%	10%	10%

2022			
	Base	Upside	Downside
Weightings applied by the Group	60%	20%	20%
Sensitivity scenario 1	40%	30%	30%
Sensitivity scenario 2	80%	10%	10%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.2 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1, Stage 2 and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied:

2023			
	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortised cost:			
Loans and advances to customers	89,625,281	(386,820)	1,669,974
Balances with banks and placements with banks	82,051,670	(1,645)	143
Loan commitments and financial guarantee contracts	39,804,133	(20,193)	(7,578)
Investment securities	8,009,651	(244)	140
Other assets measured at amortised cost	2,379,646	(1,749)	(712)
	221,870,381	(410,651)	1,661,967
	Fair value	Credit impairment allowances	Credit impairment losses released from profit or loss
Debt securities at fair value through other comprehensive income*	36,787,385	(7,478)	(4,840)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.2 Loss allowance (Continued)

2022			
	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortised cost:			
Loans and advances to customers	96,721,773	(725,802)	270,791
Balances with banks and placements with banks	61,455,054	(1,502)	(1,258)
Loan commitments and financial guarantee contracts	45,666,811	(27,771)	13,053
Investment securities	4,728,271	(104)	48
Other assets measured at amortised cost	2,164,675	(2,461)	1,056
	210,736,584	(757,640)	283,690
	Fair value	Credit impairment allowances	Credit impairment losses released from profit or loss
Debt securities at fair value through other comprehensive income*	48,036,065	(12,318)	(7,092)

- \* Debt securities at fair value through other comprehensive income continue to be measured at fair value with the credit impairment allowances being recognized in Investment Revaluation Reserve. Change in credit impairment allowances is recognized in "Credit impairment losses" in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.2 Loss allowance (Continued)

Reconciliation of gross carrying amount and allowances for loans and advances to customers is as follows:

	Stage 1		Stage 2		Stage 3		Originated credit-impaired		Total	
	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances
As at 1 January 2023	88,706,450	149,072	7,140,107	410,905	847,915	152,557	27,301	13,268	96,721,773	725,802
Transfer to lifetime ECL	(3,703,218)	(7,770)	3,720,264	112,171	(17,046)	(54)	-	-	-	104,347
Transfer to credit impaired loans and advances	(146,135)	(294)	(3,876,940)	(375,775)	4,023,075	1,974,545	-	-	-	1,598,476
Transfer to 12-month ECL	456,157	1,877	(456,139)	(7,469)	(18)	(14)	-	-	-	(5,606)
Loans derecognised or repayments	(22,409,707)	(40,041)	(1,166,581)	(5,325)	(360,515)	(20,331)	(6,900)	-	(23,943,703)	(65,697)
New loans originated and further lending	16,244,380	29,696	2,293,399	10,252	30,951	4,295	1,459	-	18,570,189	44,243
Change in PDs/LGDs/EADs	-	(17,835)	-	1,781	-	73	-	(59)	-	(16,040)
Write-offs	-	-	-	-	(2,000,111)	(2,000,111)	(10,790)	(10,790)	(2,010,901)	(2,010,901)
Foreign exchange and other movements	272,015	8,193	4,917	(1,572)	11,076	5,499	(85)	76	287,923	12,196
As at 31 December 2023	79,419,942	122,898	7,659,027	144,968	2,535,327	116,459	10,985	2,495	89,625,281	386,820

	Stage 1		Stage 2		Stage 3		Originated credit-impaired		Total	
	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances
As at 1 January 2022	86,574,862	288,298	9,326,647	174,029	485,061	40,189	35,440	13,268	96,422,010	515,784
Transfer to lifetime ECL	(1,276,954)	(5,391)	1,291,649	16,500	(14,695)	-	-	-	-	11,109
Transfer to credit impaired loans and advances	(189,949)	(2,531)	(285,808)	(9,517)	475,757	188,442	-	-	-	176,394
Transfer to 12-month ECL	1,105,670	16,308	(1,105,644)	(20,625)	(26)	(23)	-	-	-	(4,340)
Loans derecognised or repayments	(21,421,564)	(35,244)	(4,077,687)	(37,662)	(61,429)	(7,949)	(2,559)	-	(25,563,239)	(80,855)
New loans originated and further lending	24,861,042	51,229	2,013,364	64,895	39,931	11,018	-	-	26,914,337	127,142
Change in PDs/LGDs/EADs	-	5,326	-	252,193	-	(21,004)	-	(18)	-	236,497
Write-offs	-	-	-	-	(52,450)	(52,450)	-	-	(52,450)	(52,450)
Foreign exchange and other movements (Note)	(946,657)	(168,923)	(22,414)	(28,908)	(24,234)	(5,666)	(5,580)	18	(998,885)	(203,479)
As at 31 December 2022	88,706,450	149,072	7,140,107	410,905	847,915	152,557	27,301	13,268	96,721,773	725,802

Note: Changes in credit impairment allowances were mainly resulted from the model enhancement and revision of management overlay framework.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.3 Write-off policy

The Group writes off financial assets in whole when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) the shortfall amount after realization of collateral.

The Group seeks to recover amounts that are legally owed in full, but it writes off financial assets in part when the recovery method is realization of collateral and the value of the collateral is such that there is no reasonable expectation of recovering amounts that are legally owed in full.

#### 3.1.4 Risk limit control and mitigation policies

##### (a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these methods is the taking of security for funds advanced, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. Guideline is in place to govern the management of collateral acceptable by the Group and the guideline is reviewed periodically.

The Group closely monitors collateral held for financial assets which are considered to be credit-impaired in order to mitigate potential losses.

The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over bank deposits and financial instruments such as debt securities and equities.

In addition to the above, the Group will also seek for guarantee where appropriate. To minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

##### (b) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

##### (c) Credit-related commitments

The Group has issued credit related commitments including guarantees and letters of credit. These instruments carry similar credit risk as loans. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.5 Maximum exposure to credit risk

	Maximum exposure	
	2023	2022
<b>Financial instruments subject to impairment</b>		
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances	89,238,461	95,995,971
Balances with banks and placements with banks	82,050,025	61,453,552
Investment securities	44,796,792	52,764,232
Other assets	2,377,897	2,162,214
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantee contracts	1,901,754	2,212,042
Off-balance sheet commitments and other credit related contingent liabilities	37,882,186	43,426,998
<b>Financial instruments not subject to impairment</b>		
Financial assets at fair value through profit or loss	1,006,135	919,427
Derivative financial instruments	726,213	552,801

The following table contains an analysis of the credit risk exposure of financial instruments for which a credit impairment allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements attached.

2023					
	Loans and advances				Total
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Originated credit- impaired	
<b>Credit grade</b>					
Pass	79,163,825	3,265,104	–	–	82,428,929
Special Mention	256,117	4,393,923	–	–	4,650,040
Substandard	–	–	2,489,310	8,633	2,497,943
Doubtful	–	–	43,506	2,344	45,850
Loss	–	–	2,511	8	2,519
<b>Gross carrying amount</b>	<b>79,419,942</b>	<b>7,659,027</b>	<b>2,535,327</b>	<b>10,985</b>	<b>89,625,281</b>
Credit impairment allowances	(122,898)	(144,968)	(116,459)	(2,495)	(386,820)
<b>Net carrying amount</b>	<b>79,297,044</b>	<b>7,514,059</b>	<b>2,418,868</b>	<b>8,490</b>	<b>89,238,461</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.5 Maximum exposure to credit risk (Continued)

	Loans and advances				Total
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Originated credit- impaired	
<b>Credit grade</b>					
Pass	88,375,836	2,144,115	–	189	90,520,140
Special Mention	330,614	4,995,992	–	–	5,326,606
Substandard	–	–	618,240	14,373	632,613
Doubtful	–	–	227,200	12,725	239,925
Loss	–	–	2,475	14	2,489
<b>Gross carrying amount</b>	<b>88,706,450</b>	<b>7,140,107</b>	<b>847,915</b>	<b>27,301</b>	<b>96,721,773</b>
Credit impairment allowances	(149,072)	(410,905)	(152,557)	(13,268)	(725,802)
<b>Net carrying amount</b>	<b>88,557,378</b>	<b>6,729,202</b>	<b>695,358</b>	<b>14,033</b>	<b>95,995,971</b>

As at 31 December 2023, 99% (2022: 99%) of the off-balance sheet items are “Pass” and 1% (2022: 1%) are “Special Mention”. The amount classified as “Substandard”, “Doubtful” or “Loss” is immaterial. Majority of the credit impairment allowances are provided on Stage 1 (2022: Stage 1).

“Pass” represents loans for which borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.

“Special Mention” represents loans with deficiencies and potential weakness such that if adverse conditions persist, loss of principal or interest for the Bank may occur.

“Substandard” represents loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment. These loans include rescheduled loans and loans where some losses of principal or interest are possible.

“Doubtful” represents loans which the Group expects to sustain a loss of interest and/or principal.

“Loss” represents loans which considered as uncollectible after exhausting all collection efforts such as realisation of collateral, initiation of legal proceedings and need to be fully or partially written off.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.5 Maximum exposure to credit risk (Continued)

The table below presents an analysis of debt securities by rating agency designation for the respective issues as at 31 December, based on Standard & Poor's ratings or their equivalent. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	Investment securities					
	2023			2022		
	Investment securities at fair value through other comprehensive income	Investment securities at amortised cost	Total	Investment securities at fair value through other comprehensive income	Investment securities at amortised cost	Total
<b>Credit grade</b>						
AAA	2,503,800	2,646,151	5,149,951	3,760,152	199,682	3,959,834
AA- to AA+	7,923,488	5,163,565	13,087,053	10,762,224	4,328,727	15,090,951
A- to A+	21,796,879	199,935	21,996,814	27,162,934	199,862	27,362,796
BBB- to BBB+	3,068,696	-	3,068,696	3,924,183	-	3,924,183
Unrated	1,494,522	-	1,494,522	2,426,572	-	2,426,572
<b>Gross carrying amount</b>	<b>36,787,385</b>	<b>8,009,651</b>	<b>44,797,036</b>	<b>48,036,065</b>	<b>4,728,271</b>	<b>52,764,336</b>
<b>Stage 1 credit impairment allowances</b>	<b>7,478</b>	<b>244</b>	<b>7,722</b>	<b>12,318</b>	<b>104</b>	<b>12,422</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Credit risk (Continued)

#### 3.1.6 Concentration of credit risk of financial assets

##### International claims

The following table shows the Group's international claims by major country or geographical segment, each representing 10% or more of the Group's total international claims. International claims refer to exposures to counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

As at 31 December 2023					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	18,846,000	2,424,000	84,000	2,919,000	24,273,000
Offshore centres	16,523,000	839,000	1,099,000	19,552,000	38,013,000
– of which Hong Kong	7,165,000	839,000	841,000	16,656,000	25,501,000
Developing Asia-Pacific	54,045,000	700,000	668,000	5,747,000	61,160,000
– of which Mainland China	26,947,000	700,000	668,000	3,917,000	32,232,000
– of which Taiwan (Note)	22,929,000	–	–	1,728,000	24,657,000

As at 31 December 2022					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Developed countries	26,506,000	2,513,000	81,000	1,923,000	31,023,000
Offshore centres	13,790,000	508,000	2,297,000	25,589,000	42,184,000
– of which Hong Kong	8,372,000	508,000	1,954,000	22,184,000	33,018,000
Developing Asia-Pacific	37,845,000	275,000	280,000	7,091,000	45,491,000
– of which Mainland China	23,998,000	275,000	280,000	5,221,000	29,774,000

Note: The Group's international claims on Taiwan as at 31 December 2022 did not exceed 10% of the Group's total international claims.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.7 Loans and advances (excluding trade bills and other eligible bills)

###### (a) Loans and advances by industry sector

The following table shows the breakdown of the Group's loans and advances (excluding trade bills and other eligible bills) by industry sector according to the usage of loans based on the categories and definitions set by the Hong Kong Monetary Authority.

	2023		2022	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	4,014,280	27%	3,566,198	32%
– Property investment	4,271,793	91%	4,651,210	92%
– Financial concerns	1,910,007	38%	2,563,503	16%
– Stockbrokers	635,432	53%	620,108	52%
– Wholesale and retail trade	932,942	77%	1,132,110	68%
– Manufacturing	688,853	75%	743,528	67%
– Transport and transport equipment	396,279	35%	402,198	33%
– Recreational activities	2,019,426	20%	2,587,520	15%
– Information technology – telecommunication	4,992	100%	4,982	100%
– Hotels, boarding houses and catering	2,199,249	78%	3,246,381	54%
– Others	13,212,575	40%	13,235,632	44%
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	47,304	100%	54,256	100%
– Loans for the purchase of other residential properties	3,460,884	100%	3,784,020	100%
– Credit card advances	195,031	0%	193,379	0%
– Others	5,761,834	92%	5,859,953	94%
Trade financing	7,870,908	53%	8,089,160	60%
Loans for use outside Hong Kong	41,866,699	88%	45,727,961	88%
	89,488,488	72%	96,462,099	73%

As at 31 December 2023 and 2022, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.7 Loans and advances (excluding trade bills and other eligible bills) (Continued)

###### (b) Loans and advances by geographical area

The information concerning the breakdown of the gross amount of loans and advances to customers (excluding trade bills and other eligible bills) by country or geographical area is derived according to the location of the customers after taking into account any transfer of risk. In general, such transfer of risk takes place if the loans and advances are guaranteed by a party in a country which is different from that of the customers.

As at 31 December 2023					
	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	55,599,793	2,078,189	93,720	118,952	199,090
Mainland China	3,956,055	65,697	62,116	–	6,550
United States	25,627,268	402,423	355,646	–	51,492
Others	4,305,372	3	3	2	10,634
	<b>89,488,488</b>	<b>2,546,312</b>	<b>511,485</b>	<b>118,954</b>	<b>267,766</b>
% of gross loans and advances to customers		2.85			
Fair value of collateral		1,194,734			
As at 31 December 2022					
	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	58,728,923	171,285	27,189	22,520	489,489
Mainland China	5,443,850	301,841	301,841	143,305	12,375
United States	27,792,637	402,090	353,241	–	45,619
Others	4,496,689	–	–	–	12,070
	<b>96,462,099</b>	<b>875,216</b>	<b>682,271</b>	<b>165,825</b>	<b>559,553</b>
% of gross loans and advances to customers		0.91			
Fair value of collateral		1,466,062			

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Credit risk (Continued)

##### 3.1.7 Loans and advances (excluding trade bills and other eligible bills) (Continued)

###### (c) Loans and advances overdue for more than 3 months

	2023		2022	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Balances which have been overdue for:				
– 6 months or less but over 3 months	44,019	0.05	30,048	0.03
– 1 year or less but over 6 months	84,830	0.09	299,281	0.31
– over 1 year	382,636	0.43	352,942	0.37
	511,485	0.57	682,271	0.71
Current market value of collateral	696,355		852,844	
Covered portion by collateral	505,931		661,367	
Uncovered portion by collateral	5,554		20,904	
Credit impairment allowances	8,016		164,736	

Collateral held against such loans and advances mainly include mortgages over properties.

###### (d) Rescheduled loans and advances (net of amounts included in loans and advances overdue for more than 3 months)

	2023		2022	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	12,697	0.01	20,132	0.02



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly foreign exchange and equity contracts, that comprise transactions initiated for the Group's own account and customer needs. The Group's positions are managed by the Treasury Division under the limits and guidelines laid down in the relevant policies, approved by the Executive Committee. The Risk Management Division is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

#### 3.2.1 Market risk measurement techniques

The measuring procedures and limit structure used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Risk Committee and the Board of Directors.

#### 3.2.2 Market risk sensitivity summary

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The derivatives used by the Group including foreign exchange rate and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Executive Committee.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk (Continued)

#### 3.2.3 Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's foreign exchange risk arises primarily from currency exposures originated by the Group's commercial banking businesses. The foreign exchange risk is managed by the Treasury Division and monitored by the Risk Management Division and the Asset and Liability Committee within position limits set in the foreign exchange risk management policy. Changes to the position limits are approved by the Executive Committee and reviewed by the Risk Committee on a regular basis. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk: on- and off-balance sheet financial instruments

As at 31 December 2023					
	HKD	USD	RMB	Other	Total
<b>Assets</b>					
Cash and balances with banks	35,129,454	16,522,555	5,417,348	3,382,014	60,451,371
Placements with banks	10,962,552	8,281,727	1,332,236	1,762,736	22,339,251
Loans and advances to customers	47,034,714	30,499,116	5,814,428	5,890,203	89,238,461
Financial assets at fair value through profit or loss	48,853	1,006,135	–	–	1,054,988
Derivative financial instruments	726,213	–	–	–	726,213
Investment securities at fair value through other comprehensive income	14,221,795	18,271,380	7,121,960	797,895	40,413,030
Investment securities at amortised cost	4,951,711	2,794,551	263,145	–	8,009,407
Other assets	1,467,779	841,010	174,706	131,794	2,615,289
<b>Total</b>	<b>114,543,071</b>	<b>78,216,474</b>	<b>20,123,823</b>	<b>11,964,642</b>	<b>224,848,010</b>
<b>Liabilities</b>					
Deposits and balances from banks	591,089	2,628,136	1,640,699	207,052	5,066,976
Deposits from customers	94,692,513	62,197,034	13,485,609	8,633,476	179,008,632
Derivative financial instruments	749,830	–	–	–	749,830
Subordinated debts	–	5,041,686	–	–	5,041,686
Other liabilities	2,441,176	929,681	109,039	80,004	3,559,900
<b>Total</b>	<b>98,474,608</b>	<b>70,796,537</b>	<b>15,235,347</b>	<b>8,920,532</b>	<b>193,427,024</b>
<b>Net on-balance sheet position</b>	<b>16,068,463</b>	<b>7,419,937</b>	<b>4,888,476</b>	<b>3,044,110</b>	<b>31,420,986</b>
<b>Credit commitments</b>	<b>26,599,390</b>	<b>11,092,970</b>	<b>1,061,339</b>	<b>1,050,434</b>	<b>39,804,133</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk (Continued)

#### 3.2.3 Foreign exchange risk (Continued)

As at 31 December 2022 (restated)					
	HKD	USD	RMB	Other	Total
<b>Assets</b>					
Cash and balances with banks	23,834,032	9,626,599	6,423,857	4,912,138	44,796,626
Placements with banks	11,509,568	4,604,955	1,085,014	446,025	17,645,562
Loans and advances to customers	46,931,838	37,190,590	5,680,688	6,192,855	95,995,971
Financial assets at fair value through profit or loss	51,420	919,427	–	–	970,847
Derivative financial instruments	552,801	–	–	–	552,801
Investment securities at fair value through other comprehensive income	17,487,247	23,236,922	9,293,592	1,259,806	51,277,567
Investment securities at amortised cost	4,387,438	340,729	–	–	4,728,167
Other assets	1,281,214	680,225	179,566	116,634	2,257,639
<b>Total</b>	<b>106,035,558</b>	<b>76,599,447</b>	<b>22,662,717</b>	<b>12,927,458</b>	<b>218,225,180</b>
<b>Liabilities</b>					
Deposits and balances from banks	1,093,025	4,052,777	1,873,775	451,865	7,471,442
Deposits from customers	93,072,932	58,663,242	16,090,371	8,675,185	176,501,730
Derivative financial instruments	598,173	–	–	–	598,173
Subordinated debts	–	2,328,890	–	–	2,328,890
Other liabilities	1,977,692	621,121	145,542	31,683	2,776,038
<b>Total</b>	<b>96,741,822</b>	<b>65,666,030</b>	<b>18,109,688</b>	<b>9,158,733</b>	<b>189,676,273</b>
<b>Net on-balance sheet position</b>	<b>9,293,736</b>	<b>10,933,417</b>	<b>4,553,029</b>	<b>3,768,725</b>	<b>28,548,907</b>
<b>Credit commitments</b>	<b>31,415,334</b>	<b>12,256,900</b>	<b>1,425,977</b>	<b>568,600</b>	<b>45,666,811</b>

The Group's non-structural foreign exchange risk positions primarily arise from currency exposures originated by the Group's commercial banking businesses.

As at 31 December 2023, if HKD had weakened/strengthened within the pegged range of 7.85 to 7.75 against USD with all other variables held constant, the Group's profit after taxation for the year would have been HK\$24,674,000 (2022: HK\$14,546,000) higher/lower. The impact on the Group's profit after taxation in 2023 was higher than that in 2022 due to the increase of net USD positions.

If HKD had weakened/strengthened 3% (2022: 3%) against other currencies except USD with all other variables held constant, the Group's profit after taxation for the year would have been HK\$22,645,000 (2022: HK\$12,801,000) higher/lower. The impact on the Group's profit after taxation in 2023 was higher than that in 2022 due to the increase of net foreign currencies (excluding USD) positions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk in the banking book (“IRRBB”)

##### General information about IRRBB

The primary forms of IRRBB faced by the Group can be divided into three broad categories:

- Gap risk is the risk arising from changes in the interest rates on instruments of different maturities. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). Parallel risk is fundamental to banking business and this risk is taken on the balance sheet as part of the strategy to improve earnings. It can, however, affect the income and economic value of the Group as interest rates fluctuate. Non-parallel risk materialises when unanticipated changes in the shape of the yield curve have adverse effects on the Group’s income or economic value.
- Basis risk arises from imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. As a result of these differences, the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or repricing frequencies will change.
- Option risk arises from interest rate option derivatives or from option elements embedded in the Group’s assets, liabilities and/or off-balance sheet instruments, where the customers can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk. Automatic option risk arises from standalone instruments, such as exchange-traded and over-the-counter option contracts, or options explicitly embedded within an otherwise standard financial instrument, where the option will almost certainly be exercised if it is in the holder’s financial interest to do so. Behavioural option risk arises from the flexibility embedded implicitly or within the terms of financial contracts, such that changes in interest rates may affect the behaviour of the customer.

Apart from the three sources of risks listed above, which are directly linked to IRRBB, credit spread risk in the banking book (“CSRBB”) is a related risk that is monitored and assessed within interest rate risk management framework. CSRBB refers to any kind of asset/liability spread risk of credit-risky instruments that is not explained by IRRBB or by the expected credit risk or jump to default risk.

##### Governance of IRRBB risk management

The Group’s IRRBB risk management framework follows a hierarchy structure:

The Executive Committee and Risk Committee are delegated by the Board to be responsible for ensuring that an appropriate interest rate risk management structure, which identifies the lines of authorities and responsibilities for different levels of management is established, maintaining continued awareness of the Group’s performance and overall interest rate risk, and ensuring the interest rate risk is adequately managed and controlled within the established risk management framework.

The Asset and Liability Committee is responsible for monitoring and management of the overall interest rate risk of the Group, reviewing the report on interest rate risk position and reporting regularly on interest rate risk management to the Executive Committee and Risk Committee.

The Treasury Division is responsible for the day-to-day management of interest rate risk for the Group including branches of the Bank outside Hong Kong under the guidelines and limits approved by the Executive Committee.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk in the banking book (“IRRBB”) (Continued)

##### Governance of IRRBB risk management (Continued)

The Risk Management Division is responsible for monitoring the day-to-day management of the interest rate risk for the Group including branches of the Bank outside Hong Kong, reporting identified irregularities and taking appropriate remedial actions. It is also responsible for conducting regular stress test on interest rate risk and reviewing the IRRBB behavioural assumption on a periodic basis.

The Internal Audit Department is responsible for conducting periodic review on the adequacy and effectiveness of the Group’s internal control and risk management process for interest rate risk.

##### IRRBB risk measure

The IRRBB is assessed daily with risk indicators, such as the repricing gap and the sensitivity of the net interest income (“NII”) and economic value of equity (“EVE”) under interest rate shock and stress scenarios.

Six interest rate shock scenarios prescribed by the Hong Kong Monetary Authority (“HKMA”) under the completion instruction for the “Return of Interest Rate Risk in the Banking Book” are applied to the Group’s banking book. They include parallel shifts up and down of the interest rate curves, and non-parallel shifts such as a steepening or flattening of the interest rate curves, as well as shifting the short rate up and down relative to the long rate. The sensitivity of the EVE is specified as the maximum decrease of the banking book economic value under the six interest rate shock scenarios. Likewise, the sensitivity of the NII is specified as the maximum reduction in NII under the parallel shifts up and down scenarios, compared to the base scenario, over a period of 12 months. Additional scenarios are also applied for Internal Capital Adequacy Assessment Process purposes, which make reference to historical scenarios such as the Asian Financial Crisis in 1997 and the Global Financial Crisis in 2008, to estimate the IRRBB capital charge under those stressed scenarios.

IRRBB related hedging decisions are made by the Asset and Liability Committee and executed in the market by the Treasury Division. The Group has not designated any derivatives in any hedge relationship for the application of hedge accounting.

##### Key modelling and parametric assumptions

For EVE change/impact, commercial margins and other spread components have been included in the cash flow profiling, while the discount curves used are risk-free yield curves without spread components.

For Non-maturity deposits (“NMDs”), these are segmented into several sub-portfolios according to entity (such as head office and overseas branches), customer type and transaction type (such as retail and non-retail accounts, and transactional and non-transactional accounts), currency, and product type (such as current and savings accounts). It is assumed that customer behaviours within the same sub-portfolio are homogeneous. For each sub-portfolio, the average repricing maturity is determined after:

- Stable NMDs over a 10-year historical horizon are identified;
- The Core Deposit Ratio is estimated based on historical interest rate changes; and
- Slotting rates for NMDs repricing, which are subject to average repricing maturity caps in accordance with the customer types, are constructed.

The average and longest repricing maturity of the NMDs of major currencies as at 31 December 2023 were 0.82 years and 8.33 years (2022: 0.75 years and 8.33 years) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Market risk (Continued)

#### 3.2.4 Interest rate risk in the banking book (“IRRBB”) (Continued)

##### Key modelling and parametric assumptions (Continued)

For fixed rate loan prepayment, a statistical behavioural model is developed using the historical data for retail fixed rate loans, which are segmented into sub-portfolios by product type and branches and further by homogeneous groups with similar prepayment behaviour categorized by currency, customer type, tenor, etc. This allows the conditional prepayment rates (“CPR”) to be estimated. The parameters are then applied in cash flow slotting for reporting.

For early withdrawal of time deposits, a statistical behavioural model is developed using the historical data for retail term deposits to estimate early withdrawal rates. The term deposit portfolio is segmented into sub-portfolios by currency and tenor group with homogeneous early redemption behaviour for modelling.

The model assumptions and parameters are updated, reviewed and validated regularly or when necessary in response to change of market conditions.

##### Quantitative disclosure

The IRRBB introduces six interest rate shock scenarios (namely interest yield curve parallel up, parallel down, steepener, flattener, short rate up and short rate down) for assessing the impact in economic value of equity (“EVE”) and net interest income (“NII”) in respect of the interest rate exposures arising from banking book positions.

The table below shows the negative impact in economic value of equity (“ $\Delta$ EVE”) and changes in net interest income (“ $\Delta$ NII”) over next 12 months under the six prescribed interest rate shock scenarios for banking books provided by the HKMA per Supervisory Policy Manual IR-1 comprising major currencies based on the financial positions as at 31 December 2023 and 31 December 2022. As at 31 December 2023, the maximum losses among the six scenarios on EVE and NII would have been HK\$238 million and HK\$496 million (2022: HK\$1,116 million and HK\$21 million) respectively.

(All major currencies) in HK dollar thousands		(a)	(b)	(c)	(d)
		$\Delta$ EVE*		$\Delta$ NII**	
Period		31 December 2023	31 December 2022	31 December 2023	31 December 2022
1	Parallel up	144,000	1,116,000	(496,000)	(20,000)
2	Parallel down	32,000	29,000	496,000	21,000
3	Steepener	43,000	4,000		
4	Flattener	139,000	383,000		
5	Short rate up	238,000	796,000		
6	Short rate down	78,000	18,000		
7	Maximum loss	238,000	1,116,000	496,000	21,000
Period		31 December 2023		31 December 2022	
8	Tier 1 capital	34,098,470		31,564,599	

\* Positive value indicates negative impact in EVE

\*\* Negative value indicates increase in NII, positive value indicates decrease in NII

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The Board is ultimately responsible for overseeing the Group's liquidity risk management structure. The Risk Committee is delegated by the Board to oversee the Group's liquidity risk management, including approval of liquidity risk management policies and risk limits. The Asset and Liability Committee is delegated by the Board to oversee the Group's liquidity strategy, policies and practices, liquidity costs, benefits and risks are incorporated in the internal pricing, performance measurement and new product approval process for all significant activities, both on- and off-balance sheet. The Risk Management Division is responsible for the day-to-day liquidity risk management. The Group's liquidity is managed by the Treasury Division in accordance with the guidelines and procedures laid down in the liquidity risk management policy.

Liquidity risk is managed with regard to a variety of factors, including the liquidity maintenance ratio, core funding ratio, loan to deposit ratio, size of the liquidity cushion, maturity mismatch profile, the diversity and stability of the deposit base, and the ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is maintained at all times in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

#### 3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence within the global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity maintenance and core funding ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A cash-flow approach is adopted to managing liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The starting point for the projection is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 3.3.4). The projection is forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projection is made over daily time bands of up to 7 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projection covers positions in HK dollar and in all currencies in aggregate. Separate cash-flow projections are also performed for individual foreign currencies in which there are significant positions, such as US dollar and the renminbi.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Liquidity risk (Continued)

#### 3.3.1 Liquidity risk management process (Continued)

Management also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Group conducts stress testing regularly to analyse liquidity risk. The Group's stress tests are conducted with hypothetical as well as historical assumptions. Both funding and market liquidity risks are addressed. Three stress scenarios including an institution-specific crisis, a general market crisis and a combined crisis are adopted with minimum survival period defined according to the Supervisory Policy Manual: LM-2 "Sound Systems and Controls for Liquidity Risk Management" of the Hong Kong Monetary Authority ("HKMA").

With reference to the stress-testing results, the Group identifies potential vulnerability within the Group, and formulates a Contingency Funding Plan, which itself is a component of the Group's Business Continuity Plan, to describe the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

An annual drill test is conducted and the Contingency Funding Plan is subject to regular review in order to cope with changes in the business environment. Significant changes to the Contingency Funding Plan are approved by the Risk Committee.

The Group also performs reverse stress-testing in accordance with the HKMA's Supervisory Policy Manual: IC-5 "Stress-testing". It is a process of working backwards from a critical stress event and involves a mix of qualitative and quantitative analyses. The Group uses the stress-testing and reverse stress-testing results to strengthen its resilience to liquidity stress. These are supplemented with early-warning triggers for the formulation of management actions and contingency funding plan to mitigate any potential stress and vulnerability which the Group might face.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Liquidity risk (Continued)

#### 3.3.2 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As at 31 December 2023								
	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
<b>Assets</b>								
Cash and balances with banks	7,003,759	53,447,612	-	-	-	-	-	60,451,371
Placements with banks	-	-	21,460,910	878,341	-	-	-	22,339,251
Loans and advances to customers	5,104,575	11,495,505	6,218,582	20,491,322	29,921,168	12,794,569	3,212,740	89,238,461
Financial assets at fair value through profit or loss	-	241,547	233,153	115,807	387,137	28,490	48,854	1,054,988
Derivative financial instruments	-	273,158	300,740	145,675	6,640	-	-	726,213
Investment securities at fair value through other comprehensive income	-	1,601,521	5,040,795	17,347,869	11,131,830	1,662,496	3,628,519	40,413,030
Investment securities at amortised cost	-	705,187	2,642,457	3,895,597	766,166	-	-	8,009,407
Properties for sale	-	21,593	43,186	194,336	604,603	-	-	863,718
Investments in associates and joint venture	-	-	-	-	-	-	431,020	431,020
Properties and equipment	-	8,797	15,027	53,900	87,113	57,201	2,161,975	2,384,013
Investment properties	-	-	-	-	-	-	984,884	984,884
Deferred income tax assets	-	-	-	-	-	-	432,899	432,899
Other assets	276,846	1,140,504	284,942	396,809	378,369	72,276	65,543	2,615,289
<b>Total assets</b>	<b>12,385,180</b>	<b>68,935,424</b>	<b>36,239,792</b>	<b>43,519,656</b>	<b>43,283,026</b>	<b>14,615,032</b>	<b>10,966,434</b>	<b>229,944,544</b>
<b>Liabilities</b>								
Deposits and balances from banks	736,296	3,190,041	1,113,113	27,526	-	-	-	5,066,976
Deposits from customers	49,275,485	44,852,105	58,532,260	26,032,872	315,910	-	-	179,008,632
Derivative financial instruments	-	292,183	317,352	133,929	6,366	-	-	749,830
Subordinated debts	-	2,335,113	-	-	-	2,706,573	-	5,041,686
Other liabilities	868,000	1,212,076	834,823	475,107	93,245	76,649	-	3,559,900
Current income tax liabilities	-	329,259	7,299	61,140	-	-	-	397,698
Deferred income tax liabilities	-	-	-	-	-	-	9,001	9,001
<b>Total liabilities</b>	<b>50,879,781</b>	<b>52,210,777</b>	<b>60,804,847</b>	<b>26,730,574</b>	<b>415,521</b>	<b>2,783,222</b>	<b>9,001</b>	<b>193,833,723</b>
<b>Net liquidity gap</b>	<b>(38,494,601)</b>	<b>16,724,647</b>	<b>(24,565,055)</b>	<b>16,789,082</b>	<b>42,867,505</b>	<b>11,831,810</b>	<b>10,957,433</b>	<b>36,110,821</b>
Of which lease liabilities included in: Other liabilities	-	8,575	13,979	49,009	76,520	76,649	-	224,732

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Liquidity risk (Continued)

#### 3.3.2 Maturity analysis (Continued)

As at 31 December 2022 (restated)								
	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
<b>Assets</b>								
Cash and balances with banks	7,961,042	36,835,584	-	-	-	-	-	44,796,626
Placements with banks	-	-	7,474,545	10,171,017	-	-	-	17,645,562
Loans and advances to customers	4,398,130	7,302,772	9,442,024	21,115,764	38,690,970	14,245,947	800,364	95,995,971
Financial assets at fair value through profit or loss	-	545,123	231,667	-	114,623	28,015	51,419	970,847
Derivative financial instruments	-	152,608	244,801	148,292	7,100	-	-	552,801
Investment securities at fair value through other comprehensive income	-	2,409,612	4,519,490	9,696,109	29,339,150	2,068,830	3,244,376	51,277,567
Investment securities at amortised cost	-	-	2,042,059	2,140,719	545,389	-	-	4,728,167
Properties for sale	-	-	94,580	283,741	378,322	-	-	756,643
Investments in associates and joint venture	-	-	-	-	-	-	487,522	487,522
Properties and equipment	-	8,337	15,580	60,884	75,722	63,738	2,232,115	2,456,376
Investment properties	-	-	-	-	-	-	993,778	993,778
Deferred income tax assets	-	-	-	-	-	-	486,029	486,029
Other assets	279,090	917,366	137,875	284,327	553,506	67,276	18,199	2,257,639
<b>Total assets</b>	<b>12,638,262</b>	<b>48,171,402</b>	<b>24,202,621</b>	<b>43,900,853</b>	<b>69,704,782</b>	<b>16,473,806</b>	<b>8,313,802</b>	<b>223,405,528</b>
<b>Liabilities</b>								
Deposits and balances from banks	1,096,545	3,119,769	2,822,443	432,685	-	-	-	7,471,442
Deposits from customers	63,314,253	42,228,866	51,154,521	19,478,921	325,169	-	-	176,501,730
Derivative financial instruments	-	215,522	215,450	160,211	6,990	-	-	598,173
Subordinated debts	-	-	-	-	-	2,328,890	-	2,328,890
Other liabilities	616,613	1,219,507	382,064	397,879	78,606	81,369	-	2,776,038
Current income tax liabilities	-	153,905	-	31,946	-	-	-	185,851
Deferred income tax liabilities	-	-	-	-	-	-	7,315	7,315
<b>Total liabilities</b>	<b>65,027,411</b>	<b>46,937,569</b>	<b>54,574,478</b>	<b>20,501,642</b>	<b>410,765</b>	<b>2,410,259</b>	<b>7,315</b>	<b>189,869,439</b>
<b>Net liquidity gap</b>	<b>(52,389,149)</b>	<b>1,233,833</b>	<b>(30,371,857)</b>	<b>23,399,211</b>	<b>69,294,017</b>	<b>14,063,547</b>	<b>8,306,487</b>	<b>33,536,089</b>
Of which lease liabilities included in:								
Other liabilities	-	8,627	15,847	62,382	68,333	81,368	-	236,557

#### 3.3.3 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification of sources based on currency, geography, provider, product and term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.3 Liquidity risk (Continued)

##### 3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, they do not result in a significantly different analysis.

As at 31 December 2023						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits and balances from banks	3,935,263	1,127,035	27,783	–	–	5,090,081
Deposits from customers	94,658,851	59,409,655	26,910,375	340,402	–	181,319,283
Subordinated debts	2,393,710	87,163	87,163	697,306	3,491,042	6,756,384
Other liabilities	1,660,732	198,124	244,467	103,442	96,527	2,303,292
<b>Total</b>	<b>102,648,556</b>	<b>60,821,977</b>	<b>27,269,788</b>	<b>1,141,150</b>	<b>3,587,569</b>	<b>195,469,040</b>
<b>Assets held for managing liquidity risk</b>	<b>80,497,157</b>	<b>36,865,114</b>	<b>45,858,931</b>	<b>48,176,504</b>	<b>27,989,547</b>	<b>239,387,253</b>
As at 31 December 2022 (restated)						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits and balances from banks	4,225,558	2,856,527	438,867	–	–	7,520,952
Deposits from customers	105,858,530	51,706,038	19,946,884	350,165	–	177,861,617
Subordinated debts	58,488	–	58,488	467,904	2,504,354	3,089,234
Other liabilities	1,593,401	61,001	301,553	96,218	105,373	2,157,546
<b>Total</b>	<b>111,735,977</b>	<b>54,623,566</b>	<b>20,745,792</b>	<b>914,287</b>	<b>2,609,727</b>	<b>190,629,349</b>
<b>Assets held for managing liquidity risk</b>	<b>60,034,256</b>	<b>24,577,571</b>	<b>45,956,666</b>	<b>74,537,665</b>	<b>26,840,379</b>	<b>231,946,537</b>

The Group's policy defines the size and composition of the liquidity cushion, which includes but is not limited to high quality government securities such as Exchange Fund papers and United States Treasury securities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.3 Liquidity risk (Continued)

##### 3.3.5 Derivative liabilities

The table below analyses the Group's derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2023					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading settled on a net basis:					
Exchange rate contracts					
– Inflow/(Outflow)	264	(1,143)	2	–	(877)
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(52,399,026)	(40,374,100)	(22,369,914)	(156,259)	(115,299,299)
– Inflow	52,375,275	40,351,529	22,387,500	155,333	115,269,637
As at 31 December 2022					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading settled on a net basis:					
Exchange rate contracts					
– Outflow	(380)	(3,299)	–	–	(3,679)
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(32,229,706)	(27,092,112)	(51,900,694)	(33,257)	(111,255,769)
– Inflow	32,166,090	27,119,562	51,901,470	33,679	111,220,801

##### 3.3.6 Off-balance sheet items

The contractual maturity profile of off-balance sheet items including contingent liabilities and commitments is included in Note 36.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.4 Fair value of financial assets and liabilities

#### (a) Financial instruments not measured at fair value

##### (i) Balances with banks and placements with banks

Balances with banks and placements with banks include inter-bank placements and are stated net of impairment allowances. The maturities of these financial assets are within one year. The carrying amount at the reporting date approximates their fair value.

##### (ii) Loans and advances to customers

Loans and advances are stated net of impairment allowances. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at the reporting date approximates their fair value.

##### (iii) Investment securities at amortised cost

The fair value of investment securities at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. For the carrying value of investment securities at amortised cost, please refer to Note 22. The fair value of investment securities at amortised cost is classified under Level 1 (2023: HK\$4,828,277,000, 2022: HK\$3,664,642,000) and Level 2 (2023: HK\$3,175,948,000, 2022: HK\$1,025,706,000) in the fair value hierarchy. Please refer to Note 3.4(b) for the definition of fair value hierarchy.

##### (iv) Deposits and balances from banks and deposits from customers

Substantially all the deposits and balances from banks and deposits from customers will mature within 1 year from the reporting date. Hence, the carrying amount at the reporting date approximates their fair value.

##### (v) Subordinated debts

The fair value of subordinated debts of HK\$5,101,813,000 (2022: HK\$2,295,771,000) is classified under Level 2 in the fair value hierarchy.

#### (b) Fair value hierarchy

##### Valuation governance

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes. The valuation process is conducted by control units independent of risk taking units.

The Group is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt securities on exchanges and exchange-traded derivative contracts.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes instruments such as over-the-counter derivative contracts and unlisted debt securities. Observable parameters that are used as input include market data such as interest rate yield curves and exchange rate implied volatilities.

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities and unlisted debt securities with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.4 Fair value of financial assets and liabilities (Continued)

##### (b) Fair value hierarchy (Continued)

###### Recurring fair value measurement

As at 31 December 2023				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	1,006,135	–	–	1,006,135
Equity securities	35,068	–	13,785	48,853
Derivative financial instruments				
Exchange rate contracts	–	726,213	–	726,213
Investment securities at fair value through other comprehensive income				
Debt securities	22,614,357	14,170,154	2,874	36,787,385
Equity securities	2,936,964	–	688,681	3,625,645
<b>Total Assets</b>	<b>26,592,524</b>	<b>14,896,367</b>	<b>705,340</b>	<b>42,194,231</b>
Derivative financial instruments				
Exchange rate contracts	–	749,830	–	749,830
<b>Total Liabilities</b>	<b>–</b>	<b>749,830</b>	<b>–</b>	<b>749,830</b>
As at 31 December 2022				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	919,427	–	–	919,427
Equity securities	39,178	–	12,242	51,420
Derivative financial instruments				
Exchange rate contracts	–	552,801	–	552,801
Investment securities at fair value through other comprehensive income				
Debt securities	28,483,360	19,549,831	2,874	48,036,065
Equity securities	2,945,039	–	296,463	3,241,502
<b>Total Assets</b>	<b>32,387,004</b>	<b>20,102,632</b>	<b>311,579</b>	<b>52,801,215</b>
Derivative financial instruments				
Exchange rate contracts	–	598,173	–	598,173
<b>Total Liabilities</b>	<b>–</b>	<b>598,173</b>	<b>–</b>	<b>598,173</b>

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.4 Fair value of financial assets and liabilities (Continued)

##### (b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt securities are determined based on quotes from brokers. The most significant input is discount rate of the instruments.

Level 2 fair values of foreign exchange rate contracts are determined using the appropriate foreign exchange rates, interest rate yield curves and where applicable, the implied option volatility at the reporting date, with the expected cash-flow discounted back to present value.

Level 3 fair values of unlisted equity securities and debentures are determined based on valuation techniques using significant unobservable inputs, which includes the market comparison approach and the dividend discount approach. The fair value is affected by the price to book ratio of appropriate comparables, dividend growth rate or discount rate.

If the significant unobservable inputs would be shifted by +/- 5%, the impact on other comprehensive income would be increased by HK\$3,669,000 (2022: HK\$4,601,000) or decreased by HK\$2,509,000 (2022: HK\$4,088,000) and profit or loss would be increased/decreased by HK\$687,000 (2022: HK\$612,000) respectively.

The following table presents the changes in level 3 instruments for the years ended 31 December 2022 and 2023 respectively.

	Financial assets at fair value through profit or loss		Investment securities at fair value through other comprehensive income		
	Equity securities	Total	Equity securities	Debt securities	Total
As at 1 January 2022	10,224	10,224	66,080	2,874	68,954
Total gains					
– Profit	2,018	2,018	–	–	–
– Other comprehensive loss	–	–	(4,111)	–	(4,111)
– Change in accounting estimate	–	–	260,841	–	260,841
Exchange adjustments	–	–	(26,347)	–	(26,347)
As at 31 December 2022 and 1 January 2023	<b>12,242</b>	<b>12,242</b>	<b>296,463</b>	<b>2,874</b>	<b>299,337</b>
Total gains					
– Profit	1,543	1,543	–	–	–
– Other comprehensive income	–	–	402,779	–	402,779
Exchange adjustments	–	–	(10,561)	–	(10,561)
As at 31 December 2023	<b>13,785</b>	<b>13,785</b>	<b>688,681</b>	<b>2,874</b>	<b>691,555</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.5 Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital requirements under the Banking (Capital) Rules ("BCR") of the Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the BCR. The required information is filed with the Hong Kong Monetary Authority ("HKMA") periodically.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the statutory minimum ratio. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission.

The regulatory capital requirements are strictly observed when managing economic capital. The regulatory capital of the Group comprises the following:

- Common Equity Tier 1 ("CET1") capital and Tier 1 capital: share capital, general reserve, investment revaluation reserve and retained earnings; and
- Tier 2 capital: subordinated debts, Stage 1 and Stage 2 credit impairment allowances and regulatory reserve.

	2023	2022
CET1 capital ratio	22.5%	19.6%
Tier 1 capital ratio	22.5%	19.6%
Total capital ratio	26.6%	22.0%

### 3.6 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all material products, activities, processes and systems. The Compliance and Operational Risk Management Committee oversees the Group's operational risk to ensure the operations are in accordance with the controls and procedures laid down in the operational risk management policy approved by the Risk Committee. The Operational Risk Management Department is responsible for the central operational risk management function. Policies and procedures have been established to control exposures and to identify operational risk factors. Insurance policies are taken to mitigate unforeseeable operational risk. No significant operational loss event identified in 2023 (2022: Nil). A Business Continuity Plan and Operational Resilience Framework are established to ensure the Group's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, particularly where the Group's physical, telecommunication, or information technology infrastructures have been damaged or made inaccessible.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

### Measurement of the expected credit loss ("ECL") allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.1.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Assessing data limitation and model uncertainty, and determining post model adjustments.

### Fair value of financial instruments

The fair values of certain financial instruments that are not quoted in active markets are determined by using valuation techniques, details of which are set out in Note 3.4(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 5 SEGMENT REPORTING

### (a) By operating segment

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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

For the purpose of assessing performance of business activity by class, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, trade finance, treasury and other classes of business.

Retail and corporate banking – incorporating banking services to individual and corporate customers such as current accounts, savings accounts, fixed deposits, safe deposit box, credit cards, loans and other credit facilities.

Trade finance – incorporating import and export bills services, invoice discounting/receivable financing and ECIC supported export finance for small and medium enterprises.

Treasury – conducting treasury operations for trading and investment purposes such as foreign exchange, money market and capital market activities and providing treasury products such as yield enhancement and hedging products to retail and corporate customers.

The business activities under "Others" mainly comprise remittance, share dealing, provisions of trustee, wealth management and insurance services, and support services for operations not directly identified under other reportable segments.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 5 SEGMENT REPORTING (CONTINUED)

(a) By operating segment (Continued)

2023					
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	4,326,731	31,682	37,961	–	4,396,374
Non-interest income	277,319	74,088	291,399	568,636	1,211,442
Operating income	4,604,050	105,770	329,360	568,636	5,607,816
Operating expenses	(1,026,691)	(82,551)	(143,538)	(597,410)	(1,850,190)
Operating profit/(loss) before credit impairment losses	3,577,359	23,219	185,822	(28,774)	3,757,626
Credit impairment losses	(1,660,525)	(973)	4,515	(144)	(1,657,127)
Operating profit/(loss) after credit impairment losses	1,916,834	22,246	190,337	(28,918)	2,100,499
Share of net losses of associates and joint venture	–	–	–	(34,782)	(34,782)
Profit/(loss) before income tax (after taking into account internal fund transfers and cost allocation)	1,916,834	22,246	190,337	(63,700)	2,065,717
Income tax expense	517,757	3,557	30,536	(54,650)	497,200
Depreciation expenses and amortisation	97,296	7,149	9,910	112,219	226,574
Total assets	90,376,325	3,231,852	130,597,189	5,739,178	229,944,544
Total liabilities	180,731,701	77,268	11,719,942	1,304,812	193,833,723
2022 (restated)					
	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	3,551,084	56,351	131,810	147,546	3,886,791
Non-interest income	275,191	76,246	270,449	642,867	1,264,753
Operating income	3,826,275	132,597	402,259	790,413	5,151,544
Operating expenses	(940,615)	(90,600)	(121,908)	(632,931)	(1,786,054)
Operating profit before credit impairment losses	2,885,660	41,997	280,351	157,482	3,365,490
Credit impairment losses	(284,819)	1,438	6,517	266	(276,598)
Operating profit after credit impairment losses	2,600,841	43,435	286,868	157,748	3,088,892
Share of net losses of associates and joint venture	–	–	–	(50,287)	(50,287)
Profit before income tax (after taking into account internal fund transfers and cost allocation)	2,600,841	43,435	286,868	107,461	3,038,605
Income tax expense	572,581	4,664	32,082	6,489	615,816
Depreciation expenses and amortisation	99,052	6,991	11,759	122,932	240,734
Total assets	97,366,935	3,126,806	117,358,089	5,553,698	223,405,528
Total liabilities	177,658,750	81,360	10,888,955	1,240,374	189,869,439

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 5 SEGMENT REPORTING (CONTINUED)

#### (b) By geographical area

The following tables provide information by geographical area, which is determined with reference to the location of the principal operations of the branches and subsidiaries of the Group.

2023						
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	197,441,570	184,456,731	38,256,605	4,255,435	917,204	178,846
United States	27,493,222	7,585,393	1,285,953	1,235,673	1,049,610	1,653
United Kingdom	5,009,752	1,791,599	261,575	116,708	98,903	982
<b>Total</b>	<b>229,944,544</b>	<b>193,833,723</b>	<b>39,804,133</b>	<b>5,607,816</b>	<b>2,065,717</b>	<b>181,481</b>

2022 (restated)						
	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	188,202,578	177,158,384	42,808,521	3,932,519	1,999,583	139,714
United States	29,868,030	10,551,504	2,832,418	1,115,418	966,209	1,653
United Kingdom	5,334,920	2,159,551	25,872	103,607	72,813	1,468
<b>Total</b>	<b>223,405,528</b>	<b>189,869,439</b>	<b>45,666,811</b>	<b>5,151,544</b>	<b>3,038,605</b>	<b>142,835</b>

### 6 NET INTEREST INCOME

Interest income		
	2023	2022
Balances with banks and placements with banks	2,982,970	818,929
Investment securities at amortised cost	265,475	32,993
Investment securities at fair value through other comprehensive income	781,318	1,065,336
Loans and advances to customers	5,942,077	4,098,683
Others	15,940	6,873
<b>Interest income on financial assets that are not measured at fair value through profit or loss</b>	<b>9,987,780</b>	<b>6,022,814</b>
Interest expense		
Deposits and balances from banks	267,508	159,376
Deposits from customers	5,029,502	1,775,895
Subordinated debts	276,059	193,302
Lease liabilities	8,816	4,068
Others	9,521	3,382
<b>Interest expense on financial liabilities that are not measured at fair value through profit or loss</b>	<b>5,591,406</b>	<b>2,136,023</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 7 NET FEE AND COMMISSION INCOME

	2023	2022 (restated)
Fee and commission income		
Bills	55,850	63,902
Nominees, custodian and securities brokerage	136,226	177,000
Investment products	79,984	88,222
Remittance	52,614	55,844
Credit cards	54,539	45,251
Retail banking	43,743	42,851
Insurance	38,655	36,703
Loans and advances and facility fees	180,141	183,732
Trust and other commissions	3,187	3,032
Total fee and commission income	644,939	696,537
Less: fee and commission expense	(58,607)	(51,116)
Net fee and commission income	586,332	645,421
Of which:		
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at fair value through profit or loss		
– fee and commission income	290,530	292,885
– fee and commission expense	6,703	7,347
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	25,011	24,599

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 8 NET TRADING INCOME

	2023	2022
Foreign exchange	237,239	415,061
Interest rate instruments	43,801	(18,069)
Equity instruments:		
– Trading losses	(2,718)	(155,665)
– Dividend income	1,082	4,708
Other trading income	9,472	388
	<b>288,876</b>	<b>246,423</b>

“Foreign exchange” includes gains and losses from spot, forward and option contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. “Interest rate instruments” include the results of trading in government securities, corporate debt securities, money market instruments and interest rate swaps. “Equity instruments” include equity securities and equity derivatives.

### 9 OTHER OPERATING INCOME

	2023	2022
Gross rental income from investment properties	53,241	59,241
Net (losses)/gains from disposal of equipment	(33)	25
Others	70,925	71,159
	<b>124,133</b>	<b>130,425</b>

Direct operating expenses arising from investment properties of HK\$715,000 (2022: HK\$730,000) are included in premises management expenses (Note 11).

### 10 NET INCOME FROM INSURANCE SERVICES

	2023	2022 (restated)
Insurance revenue	50,908	48,660
Insurance service expenses	(34,912)	(30,223)
Net expenses from reinsurance contracts held	(8,223)	(8,543)
Net insurance finance (expenses)/income	(2,914)	1,556
	<b>4,859</b>	<b>11,450</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 11 OPERATING EXPENSES

	2023	2022 (restated)
Auditor's remuneration		
Audit services (Note a)	11,859	12,577
Non-audit-related services (Note b)	7,492	8,866
Premises management expenses	48,102	44,738
Depreciation expenses		
Properties and equipment	114,407	122,640
Right-of-use assets	100,006	109,200
Investment properties	8,894	8,894
Amortisation of computer software	3,267	–
Employee benefit expenses		
Wages and salaries and other costs (Note c)	1,111,990	1,036,049
Pension costs – defined contribution schemes	87,057	71,904
Expenses relating to short-term and low-value leases	1,970	2,022
Information technology and communications	108,390	96,957
Legal and consultancy	19,124	31,278
Printing, stationery and postage	23,256	21,298
Promotion and advertising	50,439	48,921
Others	153,937	170,710
	<b>1,850,190</b>	<b>1,786,054</b>

Note a: The above auditor's remuneration for audit services represents the fee for the audit of the Group's financial information for the interim and annual period to comply with the statutory and regulatory requirements in Hong Kong and Taiwan.

Note b: The above fee for non-audit-related services includes the fee for the review under Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" for the first and third quarter results of the Group in accordance with the regulatory requirements of the ultimate holding company in Taiwan.

Note c: Employee benefit expenses include directors' emoluments (Note 13(a)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 12 CREDIT IMPAIRMENT LOSSES

	2023	2022
Loans and advances to customers	1,669,974	270,791
Balances with banks and placements with banks	143	(1,258)
Investment securities	(4,700)	(7,044)
Other assets	(712)	1,056
Loan commitments and financial guarantee contracts	(7,578)	13,053
	1,657,127	276,598

### 13 BENEFITS AND INTERESTS OF DIRECTORS

#### (a) Directors' emoluments

The emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are set out below:

	2023	2022
Fees	8,433	8,442
Basic salaries, allowances and bonus	20,543	27,264
Contributions to retirement benefits schemes	1,416	1,307
	30,392	37,013

#### (b) Directors' material interests in transactions, arrangements or contracts

In 2019, the Bank entered into a contract with Hanison Contractors Limited ("Hanison") as the main contractor for a sum of HK\$452,880,000 relating to the redevelopment of West Point Branch where Mr. Johnson M. D. Cha is a common director of the Bank and Hanison Construction Holdings Ltd., the holding company of Hanison.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 14 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the statement of profit or loss represents:

	2023	2022
Current income tax:		
– Hong Kong profits tax	377,034	337,612
– Overseas taxation	350,073	367,575
– Over provisions in respect of prior years	(22,910)	(11,864)
Total current income tax	704,197	693,323
Deferred income tax:		
– Hong Kong deferred tax	(233,197)	(16,005)
– Overseas deferred tax	26,200	(61,502)
Total deferred income tax	(206,997)	(77,507)
Income tax expense	497,200	615,816

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates of the countries in which the Group operates as follows:

	2023	2022 (restated)
Profit before tax	2,065,717	3,038,605
Tax calculated at domestic tax rates applicable to profits in the respective countries	534,213	681,255
Tax effects of:		
Income not subject to tax	(37,357)	(81,469)
Expenses not deductible for tax purposes	23,254	27,894
Over provisions in respect of prior years	(22,910)	(11,864)
Income tax expense	497,200	615,816

### 15 DIVIDEND

The dividends paid in 2023 and 2022 were HK\$275,000,000 (HK\$13.75 per share) and HK\$313,000,000 (HK\$15.65 per share) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 16 CASH AND BALANCES WITH BANKS

	2023	2022
Cash in hand	740,597	988,636
Balances with central banks and the Hong Kong Monetary Authority	2,602,125	3,684,244
Balances with banks	57,109,846	40,124,817
	<b>60,452,568</b>	44,797,697
Less: Stage 1 credit impairment allowances	(1,197)	(1,071)
	<b>60,451,371</b>	44,796,626
Gross amount of cash and balances with banks	60,452,568	44,797,697
Less: Amount with an original maturity beyond 3 months or deposits with designated banks subject to regulatory requirement	(4,921,360)	(7,276,217)
Amount included in cash and cash equivalents	<b>55,531,208</b>	37,521,480

Included in the gross amount of cash and balances with banks, HK\$137,162,000 (2022: HK\$93,780,000) were deposited in central banks or designated banks as at 31 December 2023, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business. In addition, financial assets amounted to HK\$1,017,056,000 (2022: HK\$973,580,000) comprising balances with banks of HK\$10,921,000 (2022: HK\$54,153,000) and financial assets at fair value through profit or loss of HK\$1,006,135,000 (2022: HK\$919,427,000) were under a collateral arrangement with a shareholder of the Bank for its provision of the credit facilities of HK\$742,230,000 (2022: HK\$740,848,000) to the Bank's branches in the United States.

### 17 PLACEMENTS WITH BANKS

	2023	2022
Placements with banks maturing between 1 and 12 months	22,339,699	17,645,993
Less: Stage 1 credit impairment allowances	(448)	(431)
	<b>22,339,251</b>	17,645,562
Gross amount of placements with banks	22,339,699	17,645,993
Less: Amount with an original maturity beyond 3 months or deposits with designated banks subject to regulatory requirement	(9,459,089)	(16,730,788)
Amount included in cash and cash equivalents	<b>12,880,610</b>	915,205

Included in the gross amount of placements with banks, HK\$402,378,000 (2022: HK\$488,860,000) were deposited with designated banks in the Mainland China as at 31 December 2023, to comply with the local statutory requirement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 18 LOANS AND ADVANCES TO CUSTOMERS

	2023	2022
Gross loans and advances to customers	89,625,281	96,721,773
Less: credit impairment allowances		
– Stage 1	(122,898)	(149,072)
– Stage 2	(144,968)	(410,905)
– Stage 3	(118,954)	(165,825)
	<b>89,238,461</b>	95,995,971
Gross trade bills and other eligible bills included within gross loans and advances to customers	136,793	259,674
Less: credit impairment allowances on trade bills		
– Stage 1	(72)	(395)
– Stage 2	(28)	(29)
	<b>136,693</b>	259,250

The Group accepted listed securities at fair value of HK\$2,518,344,000 (2022: HK\$3,606,552,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
Debt securities		
Unlisted	1,006,135	919,427
<b>Total debt securities</b>	<b>1,006,135</b>	919,427
Equity securities		
Listed in Hong Kong	35,068	39,178
Unlisted	13,785	12,242
<b>Total equity securities</b>	<b>48,853</b>	51,420
<b>Total</b>	<b>1,054,988</b>	970,847
Type of issuer:		
Sovereigns	1,006,135	919,427
Public sector entities	5,885	7,738
Corporates	42,968	43,682
	<b>1,054,988</b>	970,847

As at 31 December 2023, financial assets amounted to HK\$1,017,056,000 (2022: HK\$973,580,000) comprising balances with banks of HK\$10,921,000 (2022: HK\$54,153,000) and financial assets at fair value through profit or loss of HK\$1,006,135,000 (2022: HK\$919,427,000) were under a collateral arrangement with a shareholder of the Bank for its provision of the credit facilities of HK\$742,230,000 (2022: HK\$740,848,000) to the Bank's branches in the United States.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 20 DERIVATIVE FINANCIAL INSTRUMENTS

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

As at 31 December 2023			
	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	123,595,757	726,213	(749,830)
Total recognised derivative assets/(liabilities)		726,213	(749,830)

As at 31 December 2022			
	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	123,385,889	552,801	(598,173)
Total recognised derivative assets/(liabilities)		552,801	(598,173)

	Credit risk weighted amount	
	2023	2022
Derivatives held for trading	404,316	572,316

The contract amounts of these instruments indicate the volume of transactions outstanding as at the reporting date, they do not represent the amounts at risk.

The credit risk weighted amounts are calculated in accordance with the standardised (counterparty credit risk) approach as stipulated in the Banking (Capital) Rules.

The above fair values have not taken into account the effect of bilateral netting arrangements and accordingly the amounts disclosed are shown on a gross basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group uses the following derivative strategies:

- Trading purposes (customer needs)  
The Group offers its customers derivatives in connection with their risk management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.
- Trading purposes (own account)  
The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

### 21 INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
Debt securities		
Listed in Hong Kong	7,896,266	13,330,725
Listed outside Hong Kong	12,254,975	14,208,693
Unlisted	16,636,144	20,496,647
<b>Total debt securities</b>	<b>36,787,385</b>	<b>48,036,065</b>
Equity securities		
Listed outside Hong Kong	2,936,964	2,945,039
Unlisted	688,681	296,463
<b>Total equity securities</b>	<b>3,625,645</b>	<b>3,241,502</b>
<b>Total</b>	<b>40,413,030</b>	<b>51,277,567</b>
Type of issuer:		
Sovereigns	3,289,817	4,268,276
Public sector entities	2,101,170	1,896,801
Banks	17,980,920	24,244,653
Corporates	17,041,123	20,867,837
	<b>40,413,030</b>	<b>51,277,567</b>

As at 31 December 2023, equity securities designated at fair value through other comprehensive income amounting to HK\$3,625,645,000 (2022: HK\$3,241,502,000) were for long term investment purpose, of which HK\$2,801,525,000 (2022: HK\$2,817,825,000) were the fair value of the Bank's investment in Bank of Shanghai, China. In addition, listed and unlisted Exchange Fund Bills and Notes at fair value through other comprehensive income of HK\$1,437,919,000 (2022: HK\$1,951,440,000) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 22 INVESTMENT SECURITIES AT AMORTISED COST

	2023	2022
Debt securities		
Listed in Hong Kong	1,080,191	1,299,176
Listed outside Hong Kong	2,508,601	540,430
Unlisted	4,420,859	2,888,665
	<b>8,009,651</b>	4,728,271
Less: Stage 1 credit impairment allowances	(244)	(104)
	<b>8,009,407</b>	4,728,167
Type of issuer:		
Sovereigns	2,338,494	3,678,835
Public sector entities	3,264,950	649,826
Banks	2,206,056	199,682
Corporates	199,907	199,824
	<b>8,009,407</b>	4,728,167

As at 31 December 2023, certain of the Bank's branches in the United States have pledged investment securities at amortised cost amounting to HK\$339,266,000 (2022: HK\$340,748,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements. In addition, listed and unlisted Exchange Fund Bills and Notes at amortised cost of HK\$1,535,887,000 (2022: HK\$3,338,106,000) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

### 23 PROPERTIES FOR SALE

	2023	2022
Property development		
Leasehold land held for development for sale	381,188	381,188
Building development cost	482,530	375,455
	<b>863,718</b>	756,643

The Group has undertaken a project to redevelop the properties located in West Point. As at 31 December 2023, the net book amount of land and building incurred for this project were HK\$1,073,017,000 (2022: HK\$943,515,000), of which HK\$863,718,000 (2022: HK\$756,643,000) were classified as properties held for sale while the remaining HK\$209,299,000 (2022: HK\$186,872,000) as bank premises under development (Note 26) in accordance with the redevelopment plan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 24 SUBSIDIARIES

The following is a list of the subsidiaries as at 31 December 2023:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2023		2022 (restated)	
					Total assets	Total equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	100% <sup>1</sup>	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	60% <sup>2</sup>	16,238	16,030	15,638	15,531
Shacom Futures Limited	Hong Kong	Advising and dealing in futures contracts Hong Kong	600,000 ordinary shares	100% <sup>1</sup>	80,731	54,269	86,572	54,486
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100% <sup>1</sup>	3,716,406	12,988	3,483,773	12,935
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US\$1 each	100% <sup>1</sup>	27,596	4,307	27,001	4,288
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% <sup>1</sup>	5,480	5,480	5,501	5,501
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US\$1 each	100% <sup>1</sup>	2,714	2,714	2,653	2,653
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100% <sup>1</sup>	1,085,691	3,734	1,083,997	2,056
Infinite Financial Solutions Limited	Hong Kong	Information technology services provider Hong Kong	500,000 ordinary shares	100% <sup>1</sup>	33,463	24,006	30,633	22,387
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100% <sup>1</sup>	4,004	2,028	5,238	1,923
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	2,000,000 ordinary shares	100% <sup>1</sup>	469,702	269,586	419,912	268,589
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100% <sup>1</sup>	917	778	988	643

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 24 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2023		2022 (restated)	
					Total assets	Total equity	Total assets	Total equity
Pafoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60% <sup>2</sup>	348,436	258,111	332,756	241,351
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100% <sup>1</sup>	7	(221)	6	(201)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	424,432	(38,560)	400,368	(30,243)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US\$1 each	100%	1,305,629	(94,555)	1,206,187	(60,533)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	288,475	104,449	299,461	116,058
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	289,566	105,453	300,520	117,035
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK\$1 each	100% <sup>1</sup>	290,633	106,647	301,546	118,195

1 Ordinary share capital is held directly by the Bank.

2 60% of ordinary share capital is held directly by the Bank and 40% of ordinary share capital is held by non-controlling interests in equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

#### Movement in investments in associates and joint venture

	Investment in associates	Investment in joint venture	Total
As at 31 December 2021 as originally presented	428,666	38,163	466,829
Changes in accounting policies (Note 2.1(c))	96,395	–	96,395
Restated as at 1 January 2022	525,061	38,163	563,224
Share of losses, net of tax (restated)	(50,150)	(137)	(50,287)
Dividends paid	(25,380)	(35)	(25,415)
Share of reserves (restated)	–	–	–
Restated as at 31 December 2022 and 1 January 2023	<b>449,531</b>	<b>37,991</b>	<b>487,522</b>
Share of (losses)/profits, net of tax	<b>(35,199)</b>	<b>417</b>	<b>(34,782)</b>
Dividends paid	<b>(21,820)</b>	<b>(35)</b>	<b>(21,855)</b>
Share of reserves	<b>–</b>	<b>135</b>	<b>135</b>
As at 31 December 2023	<b>392,512</b>	<b>38,508</b>	<b>431,020</b>

The Group's interests in its associates and joint venture for the years ended 2023 and 2022, which are unlisted, are as follows:

Name of entity	Principle activities	Place of incorporation and operation	Proportion of voting power	% of ownership interest	Nature of relationship
Bank Consortium Holding Limited	Investment holding and provision of trustee, administration and custodian services for retirement schemes	Hong Kong	14.29% of "A" shares (Note a)	13.33%	Associate
BC Reinsurance Limited	Underwriting of general reinsurance business	Hong Kong	21%	21%	Associate
Hong Kong Life Insurance Limited	Underwriting of life insurance business	Hong Kong	16.67%	16.67%	Associate
Joint Electronic Teller Services Limited	Provision of ATM network services	Hong Kong	20% of "A" shares (Note b)	2.74%	Joint venture

Note a: The Group is able to exercise significant influence over the entity because it has the power to appoint and remove director(s) and the right to vote in general meetings of the entity.

Note b: The Group is able to exercise significant influence over the entity because it has the power to appoint and remove director(s) and the right to vote in general meetings of the entity. The Group has the right to vote on the distribution of the entity's asset upon the winding up of the entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Summarised financial information for associates and joint venture which are accounted for using the equity method is set out below:

2023							
Name	Assets	Liabilities	Revenue	Profit/(loss)	Other comprehensive income	Total comprehensive income/(loss)	Dividends received
Bank Consortium Holding Limited	1,267,094	147,209	864,500	204,388	–	204,388	20,140
BC Reinsurance Limited	844,566	267,708	107,219	58,849	–	58,849	1,680
Hong Kong Life Insurance Limited	14,462,777	13,649,669	143,765	(448,854)	–	(448,854)	–
Joint Electronic Teller Services Limited	396,966	35,219	123,361	15,237	4,912	20,149	35
	16,971,403	14,099,805	1,238,845	(170,380)	4,912	(165,468)	21,855

2022 (restated)							
Name	Assets	Liabilities	Revenue	Profit/(loss)	Other comprehensive income	Total comprehensive income/(loss)	Dividends received
Bank Consortium Holding Limited	1,180,056	105,709	847,594	224,955	–	224,955	21,180
BC Reinsurance Limited	879,295	321,498	104,317	(6,910)	–	(6,910)	4,200
Hong Kong Life Insurance Limited	14,129,595	12,867,633	143,856	(472,156)	–	(472,156)	–
Joint Electronic Teller Services Limited	383,967	41,093	95,532	(5,005)	–	(5,005)	35
	16,572,913	13,335,933	1,191,299	(259,116)	–	(259,116)	25,415

Note: The balances with the associates and joint venture arise from normal business transactions and are included in Note 39.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 26 PROPERTIES AND EQUIPMENT

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development			Total
				Leasehold land	Development cost	Right-of-use assets	
<b>As at 1 January 2022</b>							
Cost	1,391,522	1,082,228	988,917	97,823	74,789	643,891	4,279,170
Accumulated depreciation	(213,065)	(358,471)	(764,427)	(1,078)	-	(391,852)	(1,728,893)
Net book amount	1,178,457	723,757	224,490	96,745	74,789	252,039	2,550,277
<b>Year ended 31 December 2022</b>							
Opening net book amount	1,178,457	723,757	224,490	96,745	74,789	252,039	2,550,277
Additions	-	-	44,354	-	15,449	83,032	142,835
Adjustments	-	-	-	-	-	(1,212)	(1,212)
Disposals/write-off/expiry							
Cost	-	-	(9,047)	-	-	(120,675)	(129,722)
Accumulated depreciation	-	-	9,040	-	-	120,675	129,715
Depreciation charge	(17,432)	(25,805)	(79,292)	(111)	-	(109,200)	(231,840)
Exchange adjustments	-	(2,147)	(1,132)	-	-	(398)	(3,677)
Closing net book amount	1,161,025	695,805	188,413	96,634	90,238	224,261	2,456,376
<b>As at 31 December 2022</b>							
Cost	1,391,522	1,078,846	1,019,861	97,823	90,238	603,223	4,281,513
Accumulated depreciation	(230,497)	(383,041)	(831,448)	(1,189)	-	(378,962)	(1,825,137)
Net book amount	1,161,025	695,805	188,413	96,634	90,238	224,261	2,456,376
<b>Year ended December 2023</b>							
Opening net book amount	1,161,025	695,805	188,413	96,634	90,238	224,261	2,456,376
Additions	-	-	20,184	-	22,532	98,064	140,780
Adjustments	-	-	-	-	-	(277)	(277)
Disposals/write-off/expiry							
Cost	-	-	(24,512)	-	-	(109,190)	(133,702)
Accumulated depreciation	-	-	24,456	-	-	109,190	133,646
Depreciation charge	(17,432)	(25,806)	(71,064)	(105)	-	(100,006)	(214,413)
Exchange adjustments	-	1,176	431	-	-	(4)	1,603
Closing net book amount	1,143,593	671,175	137,908	96,529	112,770	222,038	2,384,013
<b>As at 31 December 2023</b>							
Cost	1,391,522	1,080,719	1,016,690	97,823	112,770	590,838	4,290,362
Accumulated depreciation	(247,929)	(409,544)	(878,782)	(1,294)	-	(368,800)	(1,906,349)
Net book amount	1,143,593	671,175	137,908	96,529	112,770	222,038	2,384,013

The Group has undertaken a project to redevelop the properties located in West Point. As at 31 December 2023, the net book amount of land and building incurred for this project were HK\$1,073,017,000 (2022: HK\$943,515,000), of which HK\$863,718,000 (2022: HK\$756,643,000) were classified as properties held for sale (Note 23) while the remaining HK\$209,299,000 (2022: HK\$186,872,000) as bank premises under development in accordance with the redevelopment plan.

As at 31 December 2023, interests in freehold land outside Hong Kong amounted to HK\$33,804,000 (2022: HK\$32,957,000) are included as bank premises above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 27 INVESTMENT PROPERTIES

	Leasehold land	Buildings	Total
<b>As at 1 January 2022</b>			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	(12,136)	(46,163)	(58,299)
<b>Net book amount</b>	<b>713,169</b>	<b>289,503</b>	<b>1,002,672</b>
<b>Year ended December 2022</b>			
Opening net book amount	713,169	289,503	1,002,672
Depreciation charge	(865)	(8,029)	(8,894)
<b>Closing net book amount</b>	<b>712,304</b>	<b>281,474</b>	<b>993,778</b>
<b>As at 31 December 2022</b>			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	(13,001)	(54,192)	(67,193)
<b>Net book amount</b>	<b>712,304</b>	<b>281,474</b>	<b>993,778</b>
<b>Year ended December 2023</b>			
Opening net book amount	712,304	281,474	993,778
Depreciation charge	(866)	(8,028)	(8,894)
<b>Closing net book amount</b>	<b>711,438</b>	<b>273,446</b>	<b>984,884</b>
<b>As at 31 December 2023</b>			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	(13,867)	(62,220)	(76,087)
<b>Net book amount</b>	<b>711,438</b>	<b>273,446</b>	<b>984,884</b>

#### (a) Fair value measurement of investment properties

As at 31 December 2023, the Group's investment properties were valued at HK\$2,413,000,000 (2022: HK\$2,629,000,000) by an independent firm of chartered surveyors, Cushman & Wakefield Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 "Fair value measurement" and takes into account the highest and best use of the property from the perspective of market participants.

The major key input used in valuing the investment properties was the unit sale rate taking into account of time, location, and individual factors such as size and levels of buildings, which ranged from HK\$23,000 (2022: HK\$25,000) to HK\$63,000 (2022: HK\$73,000) per square foot. A decrease in unit sale rate would result in the decrease in fair value measurement of the investment properties by the same percentage and vice versa.

Investment properties are classified as Level 3 under the fair value hierarchy as defined in HKFRS 13 "Fair value measurement" as at 31 December 2023 and 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 27 INVESTMENT PROPERTIES (CONTINUED)

#### (b) Information about Level 3 fair value measurement

	Valuation technique(s)	Unobservable input(s)	Range	
			2023	2022
Investment properties	Income capitalisation approach	Market yields	2.875%	2.625% to 2.75%
		Market rental	HK\$56 to HK\$152 per square foot	HK\$58 to HK\$167 per square foot

For investment properties of which the fair value is determined using the income capitalisation approach, the assessment is conducted on the basis of capitalisation of net income with due allowance for outgoings and reversionary income potential. The fair value measurement is positively correlated to the market rental and inversely correlated to the market yields.

#### (c) Operating lease commitments as a lessor

Where a group company is the lessor, the future minimum lease receivables under non-cancellable leases are as follows:

	2023	2022
Not later than 1 year	49,564	57,674
1 to 2 years	37,809	48,930
2 to 5 years	17,743	35,083
	105,116	141,687

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from 2 to 5 years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 28 OTHER ASSETS

	2023	2022 (restated)
Accounts receivable and prepayments	907,785	879,150
Interest receivable	1,446,132	1,104,130
Computer software	37,434	–
Others	225,687	276,820
	<b>2,617,038</b>	2,260,100
Less: Stage 1 credit impairment allowances	(1,749)	(2,461)
	<b>2,615,289</b>	2,257,639

The movements in computer software are summarised as follows:

	2023	2022
Year ended December		
Opening net book amount	–	–
Additions	40,701	–
Amortisation	(3,267)	–
Closing net book amount	37,434	–
As at 31 December		
Cost	40,701	–
Accumulated amortisation	(3,267)	–
Net book amount	37,434	–

### 29 DEPOSITS FROM CUSTOMERS

	2023	2022
Demand deposits and current accounts	12,721,104	16,917,656
Savings deposits	36,115,883	45,582,087
Time, call and notice deposits	129,780,997	113,612,067
Deposits from Hong Kong Government Exchange Fund	390,648	389,920
	<b>179,008,632</b>	176,501,730

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 30 SUBORDINATED DEBTS

	2023	2022
US\$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note a)	2,335,113	2,328,890
US\$350 million fixed rate subordinated notes issued due 2033 at amortised cost (Note b)	2,706,573	–
	<b>5,041,686</b>	<b>2,328,890</b>

Note a: This represents US\$300,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the Banking (Capital) Rules (“BCR”), which are listed on the Hong Kong Stock Exchange. The notes will mature on 17 January 2029 with an optional redemption date falling on 17 January 2024. Interest at 5.00% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 250 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

Note b: This represents US\$350,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the BCR, which are listed on the Hong Kong Stock Exchange. The notes will mature on 28 February 2033 with an optional redemption date falling on 28 February 2028. Interest at 6.375% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 240 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

### 31 OTHER LIABILITIES

	2023	2022 (restated)
Accounts payable and accruals	673,556	669,298
Deferred income	108,106	135,990
Interest payable	1,298,522	670,282
Lease liabilities (Note 35)	224,732	236,557
Insurance contract liabilities (Note)	94,664	95,878
Margin deposits	296,973	275,097
Stage 1 and Stage 2 credit impairment allowances for undrawn commitments and financial guarantee contracts	20,193	27,771
Others	843,154	665,165
	<b>3,559,900</b>	<b>2,776,038</b>

Note: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK\$8,160,000 (2022: HK\$11,988,000 (restated)) are included in “Others” in Note 28.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 32 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred income tax assets					
	Credit impairment allowances	Accelerated tax depreciation	Fair value (gains)/losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2022	97,483	(51,236)	(3,600)	12,963	55,610
Credited to the statement of profit or loss	68,270	1,106	–	10,205	79,581
Exchange adjustments	(3,880)	986	–	(42)	(2,936)
Credited to other comprehensive income	–	–	353,774	–	353,774
As at 31 December 2022 and 1 January 2023	161,873	(49,144)	350,174	23,126	486,029
Credited/(charged) to the statement of profit or loss	195,817	(911)	–	13,519	208,425
Exchange adjustments	(235)	(284)	–	16	(503)
Charged to other comprehensive income	–	–	(261,310)	–	(261,310)
Reclassified (to)/from deferred income tax liabilities	(364)	622	–	–	258
As at 31 December 2023	357,091	(49,717)	88,864	36,661	432,899

Deferred income tax liabilities					
	Credit impairment allowances	Accelerated tax depreciation	Fair value (gains)/losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2022	1	(15,524)	–	10,282	(5,241)
Charged to the statement of profit or loss	–	(1,757)	–	(317)	(2,074)
As at 31 December 2022 and 1 January 2023	1	(17,281)	–	9,965	(7,315)
(Charged)/credited to the statement of profit or loss	–	(1,714)	–	286	(1,428)
Reclassified from/(to) deferred income tax assets	364	(622)	–	–	(258)
As at 31 December 2023	365	(19,617)	–	10,251	(9,001)

### 33 SHARE CAPITAL

	2023	2022
Issued and fully paid: 20,000,000 shares	2,000,000	2,000,000



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 34 RESERVES ATTRIBUTABLE TO EQUITY HOLDERS

	Regulatory reserve (Note a)	Investment revaluation reserve (Note b)	General and other reserves (Note c)	Total
As at 31 December 2021 as originally presented	942,311	2,271,062	7,302,536	10,515,909
Change in accounting policies (Note 2.1(c))	–	3,795	18	3,813
Restated as at 1 January 2022	942,311	2,274,857	7,302,554	10,519,722
Net change in fair value of investment securities at fair value through other comprehensive income (Note d)	–	(2,697,659)	–	(2,697,659)
Currency translation difference arising from overseas operations	(6,848)	–	(121,308)	(128,156)
Share of reserves of associates and joint venture (restated)	–	(74)	388	314
Restated as at 31 December 2022 and 1 January 2023	<b>935,463</b>	<b>(422,876)</b>	<b>7,181,634</b>	<b>7,694,221</b>
Net change in fair value of investment securities at fair value through other comprehensive income (Note d)	–	<b>1,301,248</b>	–	<b>1,301,248</b>
Currency translation difference arising from overseas operations	<b>(1,147)</b>	–	<b>(18,466)</b>	<b>(19,613)</b>
Share of reserves of associates and joint venture	–	<b>66</b>	<b>551</b>	<b>617</b>
As at 31 December 2023	<b>934,316</b>	<b>878,438</b>	<b>7,163,719</b>	<b>8,976,473</b>

Nature and purpose of reserves:

### (a) Regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements of overseas branches for prudent supervision purpose. Any movements in the regulatory reserve for Hong Kong operations are made in consultation with the Hong Kong Monetary Authority.

As at 31 December 2023, the regulatory reserves for Hong Kong and overseas branches operations were HK\$812,455,000 (2022: HK\$812,455,000) and HK\$121,861,000 (2022: HK\$123,008,000) respectively.

### (b) Investment revaluation reserve

Investment revaluation reserve represents the cumulative net change in the fair value of investment securities at fair value through other comprehensive income until these investments are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.6).

### (c) General and other reserves

General and other reserves comprise previous years' transfers from retained earnings and translation reserve arising from translation of foreign operations during consolidation and share of changes in equity of associates and joint venture.

### (d) Net change in fair value of investment securities at fair value through other comprehensive income

For the year ended 31 December 2023, net change in fair value of investment securities at fair value through other comprehensive income was a gain of HK\$1,301,248,000 (2022: loss of HK\$2,697,659,000) due to the net increase in fair value of HK\$318,070,000 (2022: net decrease of HK\$727,780,000) on equities holdings and HK\$983,178,000 (2022: net decrease of HK\$1,969,879,000) from debt securities portfolio. As at 31 December 2023, the debt securities at fair value through other comprehensive income had 96% (31 December 2022: 95%) in investment grade based on Standard & Poor's ratings or their equivalents (please refer to Note 3.1.5 for an analysis of the credit rating of these investments) while 92% (31 December 2022: 85%) of the portfolio maturing within 3 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 35 OTHER CASH FLOW INFORMATION

#### Reconciliation of liabilities arising from financing activities

	Subordinated debts	
	2023	2022
Balance as at 1 January	2,328,890	4,269,682
Cash inflow from issuance of subordinated debts	2,714,169	–
Cash outflow for redemption of subordinated debts	–	(1,952,875)
Non-cash changes:		
– Foreign exchange movement	(6,257)	3,287
– Amortisation of discount and issuance cost	4,884	8,796
Balance as at 31 December	5,041,686	2,328,890

	Lease liabilities	
	2023	2022
Balance as at 1 January	236,557	266,933
Payment of lease liabilities	(109,133)	(115,350)
Non-cash changes:		
– Additions	88,762	82,902
– Adjustments	(277)	(1,202)
– Other changes	8,823	3,274
Balance as at 31 December	224,732	236,557

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 36 CONTINGENT LIABILITIES AND COMMITMENTS

#### (a) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2023	2022
Contract amounts		
Direct credit substitutes	1,904,173	2,215,097
Trade-related contingencies	2,151,488	1,733,322
Other commitments with an original maturity of:		
– under 1 year	455,986	2,049,204
– 1 year and over	4,609,125	5,587,121
– unconditionally cancellable	30,683,361	34,082,067
	<b>39,804,133</b>	45,666,811

The contractual maturity profile of credit commitments is analysed as follows:

	2023	2022
No later than 1 year	35,738,872	40,428,589
Later than 1 year and no later than 5 years	2,269,996	3,323,114
Later than 5 years	1,795,265	1,915,108
	<b>39,804,133</b>	45,666,811

	2023	2022
Credit risk weighted amounts	3,902,249	4,639,786

#### (b) Capital commitments

Capital expenditure for the acquisition of properties and equipment outstanding as at the reporting date but not yet incurred is as follows:

	2023	2022
Contracted but not provided for	195,688	82,769

#### (c) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has adequate grounds to defend against the claimants or the amounts involved in those actions are not expected to be material.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 37 OFFSETTING FINANCIAL INSTRUMENTS

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

As at 31 December 2023						
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
<b>Assets</b>						
Derivative financial instruments	694,966	–	694,966	(578,986)	(104,811)	11,169
Other assets	264,715	(91,305)	173,410	–	–	173,410
<b>Total</b>	<b>959,681</b>	<b>(91,305)</b>	<b>868,376</b>	<b>(578,986)</b>	<b>(104,811)</b>	<b>184,579</b>
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
<b>Liabilities</b>						
Derivative financial instruments	730,410	–	730,410	(578,986)	(130,426)	20,998
Other liabilities	91,348	(91,305)	43	–	–	43
<b>Total</b>	<b>821,758</b>	<b>(91,305)</b>	<b>730,453</b>	<b>(578,986)</b>	<b>(130,426)</b>	<b>21,041</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 37 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2022

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
<b>Assets</b>						
Derivative financial instruments	497,171	–	497,171	(403,784)	(63,679)	29,708
Other assets	251,085	(240,875)	10,210	–	–	10,210
<b>Total</b>	<b>748,256</b>	<b>(240,875)</b>	<b>507,381</b>	<b>(403,784)</b>	<b>(63,679)</b>	<b>39,918</b>

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
<b>Liabilities</b>						
Derivative financial instruments	554,518	–	554,518	(403,784)	(140,644)	10,090
Other liabilities	322,910	(240,875)	82,035	–	–	82,035
<b>Total</b>	<b>877,428</b>	<b>(240,875)</b>	<b>636,553</b>	<b>(403,784)</b>	<b>(140,644)</b>	<b>92,125</b>

Derivative financial instruments disclosed above are recorded on a gross basis in the statement of financial position. Since master netting agreements have been entered into for these derivative financial instruments, the net settlement amounts if an event of default or other precedent events occurred are disclosed under “Net amounts” to comply with the accounting requirements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 37 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

The tables below reconcile the amounts of derivative financial instruments, net amounts of other assets and other liabilities presented in the statement of financial position.

	2023	2022 (restated)
<b>Assets</b>		
Net amounts of derivative financial instruments after offsetting as stated above	694,966	497,171
Derivative financial instruments not in scope of offsetting disclosures	31,247	55,630
<b>Total derivative financial instruments</b>	<b>726,213</b>	<b>552,801</b>
<b>Net amounts of other assets after offsetting as stated above</b>		
Other assets not in scope of offsetting disclosures	2,441,879	2,247,429
<b>Total other assets</b>	<b>2,615,289</b>	<b>2,257,639</b>
<b>Liabilities</b>		
Net amounts of derivative financial instruments after offsetting as stated above	730,410	554,518
Derivative financial instruments not in scope of offsetting disclosures	19,420	43,655
<b>Total derivative financial instruments</b>	<b>749,830</b>	<b>598,173</b>
<b>Net amounts of other liabilities after offsetting as stated above</b>		
Other liabilities not in scope of offsetting disclosures	3,559,857	2,694,003
<b>Total other liabilities</b>	<b>3,559,900</b>	<b>2,776,038</b>

### 38 INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE AND CONNECTED ENTITIES

Balances below are disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).

	Balance outstanding as at 31 December		Maximum balance during the year	
	2023	2022	2023	2022
Aggregate amount outstanding in respect of principal and interest	960,206	796,961	1,168,113	815,021

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 39 RELATED PARTY TRANSACTIONS

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. The outstanding balances of the related party transactions at the reporting date, and related expense and income for the year are as follows:

2023	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	42,710	–	42,710
– Cash and balances with banks	21,087	–	–	92,260	113,347
– Deposits and balances from banks and customers	225,134	722,710	446,045	1,146,005	2,539,894
– Investment securities at fair value through other comprehensive income	135,872	–	–	–	135,872
– Stage 1 and Stage 2 credit impairment allowances	–	–	84	1	85
– Contingent liabilities and other commitments	–	2,000	60,477	–	62,477
Interest income received from related parties	621	–	2,632	15,486	18,739
Interest expenses paid to related parties	7,913	15,575	11,280	99,493	134,261
Net fee and commission (expense)/income (to)/from related parties	(16,056)	50,824	–	(2,012)	32,756
Net other operating income/(expense) from/(to) related parties	30	(3,965)	(300)	–	(4,235)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 39 RELATED PARTY TRANSACTIONS (CONTINUED)

2022	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	44,930	–	44,930
– Cash and balances with banks	16,953	–	–	86,470	103,423
– Deposits and balances from banks and customers	226,595	491,872	403,130	2,360,926	3,482,523
– Investment securities at fair value through other comprehensive income	127,214	–	–	–	127,214
– Stage 1 and Stage 2 credit impairment allowances	1	–	92	2	95
– Contingent liabilities and other commitments	–	2,000	59,184	–	61,184
Interest income received from related parties	108	–	1,454	3,416	4,978
Interest expenses paid to related parties	2,683	7,954	15,189	55,833	81,659
Net fee and commission (expense)/income (to)/from related parties	(4,807)	55,887	11	(1,249)	49,842
Net other operating income/(expense) from/(to) related parties	30	(3,400)	(325)	–	(3,695)

Note a: Include key management personnel and Directors of the Bank and the ultimate holding company, their close family members and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel or Directors.

Note b: Include other shareholders of the Group.

#### Key management personnel compensation

The compensation for Directors and key management personnel of the Bank is as follows:

	2023	2022
Salaries and other short-term employee benefits	116,372	120,359



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

## 40 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

### (a) Statement of Financial Position of the Bank

	As at 31 December	
	2023	2022
<b>ASSETS</b>		
Cash and balances with banks	60,450,018	44,795,252
Placements with banks	22,339,251	17,645,562
Loans and advances to customers	89,238,461	95,995,971
Financial assets at fair value through profit or loss	1,019,920	931,669
Derivative financial instruments	726,213	552,801
Investment securities at fair value through other comprehensive income	40,413,030	51,277,567
Investment securities at amortised cost	7,809,500	3,524,748
Investments in associates and joint venture	188,000	188,000
Investments in and net amounts due from subsidiaries	2,348,572	3,208,852
Properties and equipment	1,629,911	1,744,049
Investment properties	1,013,174	1,022,496
Deferred income tax assets	435,330	488,701
Other assets	2,563,649	2,179,516
<b>TOTAL ASSETS</b>	<b>230,175,029</b>	<b>223,555,184</b>
<b>LIABILITIES</b>		
Deposits and balances from banks	5,066,976	7,471,442
Deposits from customers	179,008,632	176,501,730
Derivative financial instruments	749,830	598,173
Subordinated debts	5,041,686	2,328,890
Other liabilities	3,430,105	2,657,459
Current income tax liabilities	397,491	185,846
Deferred income tax liabilities	258	–
<b>TOTAL LIABILITIES</b>	<b>193,694,978</b>	<b>189,743,540</b>
<b>EQUITY</b>		
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>		
Share capital	2,000,000	2,000,000
Retained earnings	25,520,548	24,133,782
Reserves	8,959,503	7,677,862
	<b>36,480,051</b>	<b>33,811,644</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>230,175,029</b>	<b>223,555,184</b>

Approved and authorised for issue by the Board of Directors on 15 March 2024.

**Stephen Ching Yen LEE**  
Chairman

**John Con-sing YUNG**  
Director

**Gordon Che Keung KWONG**  
Director

**David Sek-chi KWOK**  
Managing Director & Chief Executive

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

### 40 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (CONTINUED)

#### (b) Reserve movement of the Bank

	Regulatory reserve	Investment revaluation reserve	General reserve	Total
As at 1 January 2022	942,311	2,259,668	7,301,320	10,503,299
Net change in fair value of investment securities at fair value through other comprehensive income	–	(2,697,289)	–	(2,697,289)
Currency translation difference arising from overseas operations	(6,848)	–	(121,300)	(128,148)
As at 31 December 2022 and 1 January 2023	935,463	(437,621)	7,180,020	7,677,862
Net change in fair value of investment securities at fair value through other comprehensive income	–	1,301,248	–	1,301,248
Currency translation difference arising from overseas operations	(1,147)	–	(18,460)	(19,607)
As at 31 December 2023	934,316	863,627	7,161,560	8,959,503

### 41 COMPARATIVE FIGURES

Upon adoption of HKFRS 17, certain comparative figures have been restated to conform with the current year's presentation.

### 42 EVENTS AFTER THE REPORTING PERIOD

The US\$300 million subordinated notes due in 2029 mentioned in Note 30(a) had been fully redeemed by the Bank on the optional redemption date of 17 January 2024.

# REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

The Regulatory Disclosures, together with the disclosures in this Annual Report, contain all the disclosures required by the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

This Annual Report and the Regulatory Disclosures are prepared according to the Group's disclosure policy. The disclosure policy sets out a robust mechanism for the Group's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure the timeliness, fairness, accuracy, integrity, completeness and legitimacy of financial disclosures.

The following disclosures are prepared under regulatory scope of consolidation to comply with the Banking (Disclosure) Rules and do not form part of the audited financial statements.

## 1 Key prudential ratios

	31 December 2023	30 September 2023	30 June 2023	31 March 2023	31 December 2022
<b>Regulatory capital (amount)</b>					
1 Common Equity Tier 1 (CET1)	34,098,470	34,144,992	33,087,952	32,926,103	31,564,599
2 Tier 1	34,098,470	34,144,992	33,087,952	32,926,103	31,564,599
3 Total capital	40,380,857	40,724,113	39,667,727	39,541,189	35,436,431
<b>Risk Weighted Amounts (RWA)</b>					
4 Total RWA	151,571,670	154,595,001	157,220,098	158,346,905	161,184,137
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>					
5 CET1 ratio (%)	22.5%	22.1%	21.0%	20.8%	19.6%
6 Tier 1 ratio (%)	22.5%	22.1%	21.0%	20.8%	19.6%
7 Total capital ratio (%)	26.6%	26.3%	25.2%	25.0%	22.0%
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8 Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9 Countercyclical capital buffer requirement (%)	0.65%	0.65%	0.64%	0.64%	0.64%
10 Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11 Total AI-specific CET1 buffer requirements (%)	3.2%	3.1%	3.1%	3.1%	3.1%
12 CET1 available after meeting the AI's minimum capital requirements (%)	16.5%	16.1%	15.0%	14.8%	13.6%
<b>Basel III leverage ratio</b>					
13 Total leverage ratio (LR) exposure measure	236,222,005	231,521,362	237,006,590	232,742,246	231,523,758
14 LR (%)	14.4%	14.7%	14.0%	14.1%	13.6%
<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
Applicable to category 1 institution only:					
15 Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16 Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17 LCR (%)	N/A	N/A	N/A	N/A	N/A
Applicable to category 2 institution only:					
17a LMR (%)	62.8%	59.4%	57.9%	59.5%	52.8%
<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
Applicable to category 1 institution only:					
18 Total available stable funding	N/A	N/A	N/A	N/A	N/A
19 Total required stable funding	N/A	N/A	N/A	N/A	N/A
20 NSFR (%)	N/A	N/A	N/A	N/A	N/A
Applicable to category 2A institution only:					
20a CFR (%)	252.2%	241.5%	231.4%	227.0%	225.6%

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 31 December 2023 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represents the consolidated ratio of the Bank's Hong Kong offices and its overseas branches, Shacom Property (CA), Inc., Shacom Property (NY), Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Westpoint Investments Limited, Silver Wisdom Westpoint Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited, and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR.

For accounting purposes, the basis of consolidation is described in Note 2.2 to the consolidated financial statements.

The table below shows the balance sheet based on accounting scope of consolidation and the regulatory scope of consolidation, and the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Composition of Regulatory Capital as at 31 December 2023.

#### Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
<b>Assets</b>			
Cash and balances with banks	60,451,371	60,450,018	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(1,197)	(1)
Placements with banks	22,339,251	22,339,251	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(448)	(2)
Loans and advances to customers	89,238,461	89,238,461	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(267,866)	(3)
Financial assets at fair value through profit or loss	1,054,988	1,019,920	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>	–	357	(4)
Derivative financial instruments	726,213	726,213	
Investment securities at fair value through other comprehensive income	40,413,030	40,419,431	
<i>of which: insignificant capital investments in financial sector entities exceeding 10% threshold</i>	–	90,654	(5)
Investment securities at amortised cost	8,009,407	8,009,407	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(244)	(6)
Properties for sale	863,718	863,718	
Investments in associates and joint venture	431,020	188,000	
Investments in and amounts due from subsidiaries	–	322,349	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(15,170)	(7)
Properties and equipment	2,384,013	2,371,474	
Investment properties	984,884	1,013,174	
Deferred income tax assets	432,899	435,259	(8)
Other assets	2,615,289	2,568,753	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	(1,266)	(9)
<b>Total assets</b>	<b>229,944,544</b>	<b>229,965,428</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Reconciliation of regulatory capital to balance sheet (Continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
<b>Liabilities</b>			
Deposits and balances from banks	5,066,976	5,066,976	
Deposits from customers	179,008,632	179,008,632	
Derivative financial instruments	749,830	749,830	
Amounts due to subsidiaries	–	656,109	
Subordinated debts	5,041,686	5,041,686	(10)
Other liabilities	3,559,900	3,425,204	
<i>of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital</i>	–	20,194	(11)
Current income tax liabilities	397,698	397,520	
Deferred income tax liabilities	9,001	8,928	
<b>Total liabilities</b>	<b>193,833,723</b>	<b>194,354,885</b>	
<b>Equity</b>			
Share capital	2,000,000	2,000,000	(12)
Retained earnings	25,024,409	24,644,715	(13)
Reserves	8,976,473	8,965,828	
<i>of which: accumulated other comprehensive income/(loss), other than regulatory reserve</i>	–	8,031,512	(14)
<i>regulatory reserve</i>	–	934,316	(15)
Non-controlling interests in equity	109,939	–	
<b>Total equity</b>	<b>36,110,821</b>	<b>35,610,543</b>	
<b>Total equity and liabilities</b>	<b>229,944,544</b>	<b>229,965,428</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 31 December 2023 is shown below:

	Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000 (12)
2	Retained earnings	24,644,715 (13)
3	Disclosed reserves	8,965,828 (14) + (15)
4	Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–
6	<b>CET1 capital before regulatory deductions</b>	<b>35,610,543</b>
<b>CET1 capital: regulatory deductions</b>		
7	Valuation adjustments	1,244
8	Goodwill (net of associated deferred tax liabilities)	–
9	Other intangible assets (net of associated deferred tax liabilities)	50,243
10	Deferred tax assets (net of associated deferred tax liabilities)	435,259 (8)
11	Cash flow hedge reserve	–
12	Excess of total EL amount over total eligible provisions under the IRB approach	–
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–
17	Reciprocal cross-holdings in CET1 capital instruments	–
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	91,011 (4) + (5)
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable
22	Amount exceeding the 15% threshold	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	934,316	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	934,316	(15)
26c	Securitization exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	<b>Total regulatory deductions to CET1 capital</b>	<b>1,512,073</b>	
29	<b>CET1 capital</b>	<b>34,098,470</b>	
<b>AT1 capital: instruments</b>			
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase-out arrangements from AT1 capital	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements	–	
36	<b>AT1 capital before regulatory deductions</b>	<b>–</b>	
<b>AT1 capital: regulatory deductions</b>			
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	<b>Total regulatory deductions to AT1 capital</b>	<b>–</b>	
44	<b>AT1 capital</b>	<b>–</b>	
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	<b>34,098,470</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

	Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation	
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	5,041,686	(10)
47	Capital instruments subject to phase-out arrangements from Tier 2 capital	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	of which: capital instruments issued by subsidiaries subject to phase-out arrangements	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,240,701	(11) + (15) - (1) - (2) - (3) - (6) - (7) - (9)
51	<b>Tier 2 capital before regulatory deductions</b>	<b>6,282,387</b>	
<b>Tier 2 capital: regulatory deductions</b>			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	
58	<b>Tier 2 capital</b>	<b>6,282,387</b>	
59	<b>Total regulatory capital (TC = Tier 1 + Tier 2)</b>	<b>40,380,857</b>	
60	<b>Total risk weighted assets</b>	<b>151,571,670</b>	



## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

	Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>Capital ratios (as a percentage of risk weighted assets)</b>		
61	CET1 capital ratio	22.5%
62	Tier 1 capital ratio	22.5%
63	Total capital ratio	26.6%
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.2%
65	of which: capital conservation buffer requirement	2.5%
66	of which: bank specific countercyclical capital buffer requirement	0.65%
67	of which: higher loss absorbency requirement	–
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	16.5%
<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable
70	National Tier 1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	3,418,949
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	837,760
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,240,701
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,701,964
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2018 and 1 January 2022)</b>			
80	Current cap on CET1 capital instruments subject to phase-out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase-out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

#### Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
	<b>Deferred tax assets (“DTA”) (net of associated deferred tax liabilities)</b>	<b>435,259</b>	<b>–</b>
10	<p><u>Explanation</u></p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 10 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
<p>Remarks:</p> <p>The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p>			

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 31 December 2023 are shown below. Full terms and conditions are published in the Bank's website of <http://www.shacombank.com.hk> and are accessible via the following direct link: <http://www.shacombank.com.hk/eng/about/regulatory/20231231.jsp>

		Ordinary shares	Subordinated notes due 2029	Subordinated notes due 2033
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	ISIN: XS1892105823	ISIN: XS2531672892
3	Governing law(s) of the instrument	Laws of Hong Kong	English Law, except that the subordination provisions shall be governed by the laws of Hong Kong.	English Law, except that the subordination provisions shall be governed by the laws of Hong Kong.
	Regulatory treatment			
4	Transitional Basel III rules <sup>#</sup>	N/A	N/A	N/A
5	Post-transitional Basel III rules <sup>*</sup>	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo*/group/solo and group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$2,000 million	HK\$2,335 million	HK\$2,707 million
9	Par value of instrument	N/A	US\$300 million	US\$350 million
10	Accounting classification	Shareholders' equity	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000	17 January 2019	28 February 2023
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	17 January 2029	28 February 2033
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	One-off call date: 17 January 2024.  Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.	One-off call date: 28 February 2028.  Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2029	Subordinated notes due 2033
18	Coupon rate and any related index	N/A	5.00% p.a.  Fixed until 17 January 2024 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.	6.375% p.a.  Fixed until 28 February 2028 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	The earlier of the HKMA notifying the issuer in writing:  (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or  (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.	The earlier of the HKMA notifying the issuer in writing:  (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or  (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.
32	If write-down, full or partial	N/A	May be in part or in full	May be in part or in full

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 2 Capital structure and adequacy (Continued)

#### Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2029	Subordinated notes due 2033
33	If write-down, permanent or temporary	N/A	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.</p>	<p>The rights of the holders will, in the event of the winding up of the Bank, rank</p> <p>(i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract;</p> <p>(ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and</p> <p>(iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.</p>
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Footnote:

- # Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR
- + Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR
- \* Include solo-consolidated

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 3 Overview of risk management and RWA

#### (a) Overview of risk management

The Group's risk management framework is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The key financial risks related to the Group's business include credit risk, counterparty credit risk, market risk, liquidity risk, interest rate risk and operational risk. Further information on the management of these risks is set out within the Regulatory Disclosures and Notes to the Consolidated Financial Statements as follows:

- |  |  |
|--|--|
| – Credit risk                            | – Note 7 of Regulatory Disclosures and Note 3.1 of Notes to the Consolidated Financial Statements    |
| – Counterparty credit risk               | – Note 8 of Regulatory Disclosures   |
| – Market risk                            | – Note 9 of Regulatory Disclosures and Note 3.2 of Notes to the Consolidated Financial Statements    |
| – Liquidity risk                         | – Note 10 of Regulatory Disclosures and Note 3.3 of Notes to the Consolidated Financial Statements   |
| – Interest rate risk in the banking book | – Note 11 of Regulatory Disclosures and Note 3.2.4 of Notes to the Consolidated Financial Statements |
| – Operational risk                       | – Note 3.6 of Notes to the Consolidated Financial Statements   |

#### Risk culture

The Group has long recognised the importance of a strong risk culture which is the core value of the Group and is endorsed by the Board of Directors ("the Board") and being followed by the senior management. The risk culture of the Group is created through setting and complying with the risk management strategies and core risk management principles as well as establishing a sound risk management systems and effective risk management process to address material risks under normal and stressed conditions in a forward-looking approach. Risk awareness is promoted to all staff to enhance the Group's overall risk management through appropriate training. The Group's risk culture is further reinforced by the Group's remuneration system that is established to ensure that incentives would not create excessive or undue risk exposure and unethical behaviour which could threaten the reputation as well as safety and soundness of the Group.

#### Risk governance

The Board has the ultimate responsibility for the effective management of risk and approves and oversees the Group's overall risk management framework. The Board delegates its power to oversee the Group's major functional areas, including treasury, retail banking, corporate banking, risk management, wealth management, credit control and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, the Executive Committee, and the Sustainability Committee. The Risk Committee in particular has the authority and responsibility to oversee and guide the overall management of the bank-wide risks undertaken by the Group.

The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Group.

Various business and functional units of the Group have their respective risk management responsibilities. Business units act as the first line of defence in risk management while other functional units, in particular Risk Management Division and Credit Division, which are independent from the business units and act as the second line of defence, assist in managing different kinds of risks.

The Internal Audit Department as the third line of defence, is responsible for providing independent assurance through conducting internal audits, and reporting to the Audit Committee on the quality of risk controls and management, and the adequacy and effectiveness of internal control environment of the Group.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 3 Overview of risk management and RWA (Continued)

#### (a) Overview of risk management (Continued)

##### **Risk appetite**

The Group's Risk Appetite Statement is reviewed and approved by the Board from time to time but at least annually with reference to evolving industry and market development, which describes the level of risk that the Group is prepared to accept in pursuit of the Group's strategic objectives. The Group adopts a low risk appetite in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns.

Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure of the Group under a risk tolerance level acceptable to the Group and commensurate with the risk adverse culture as well as prudent management practice.

##### **Stress testing**

Stress testing is a risk management tool and involves the use of various techniques to assess the Group's potential vulnerability to adverse changes in market conditions. It is conducted with hypothetical as well as historical assumptions. With the establishment of various alerting levels under different scenarios, it helps to alert the management to adverse unexpected outcomes related to a variety of risks and provides an indication to the amount of financial resources (including capital and liquidity) that might be necessary for absorbing losses caused by, or to withstand, severe stressed conditions.

##### **Risk measurement and information reporting**

The Group has developed various systems for risk measurement and reporting for different risk exposures. Further information on the measurement and reporting of credit risk, market risk, liquidity risk and interest rate risk in the banking book exposures are provided in Note 7(a), Note 9(a), Note 10 and Note 11 of Regulatory Disclosures respectively.

A detailed report on risk exposures and risk management activities of the Group, which covers the assessment on major risk exposures including credit risk, market risk, interest rate risk in the banking book, liquidity risk, legal risk, compliance and regulatory risk, operational risk, reputation risk, strategic risk, technology risk and climate risk is presented to the Risk Committee for review on a quarterly basis. Besides, the results of stress tests, maintenance of regulatory risk limits and risk monitoring on overseas branches are also presented.

The Group continues to invest significant resources in IT systems and processes in order to maintain and improve the risk management capabilities. A number of key initiatives and projects to enhance consistent data aggregation, reporting and management, and work towards meeting new regulatory standards are in progress.

##### **Risk mitigation**

The Group applies different strategies and processes to hedge and mitigate different risks. Exposure to credit risk is usually mitigated by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with financial institutions to cover derivatives instruments while obtaining margin deposits from non-financial counterparties. For liquidity risk management, apart from establishing liquidity cushion, the Group uses results of stress-testing and reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stress and vulnerability which the Group might face.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 3 Overview of risk management and RWA (Continued)

#### (b) Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 31 December 2023 and 30 September 2023 and the minimum capital requirements as at 31 December 2023 which are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		31 December 2023	30 September 2023	31 December 2023
1	Credit risk for non-securitization exposures	133,658,366	135,825,891	10,692,669
2	Of which STC approach	133,658,366	135,825,891	10,692,669
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	404,316	506,404	32,345
7	Of which SA-CCR approach	404,316	506,404	32,345
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	Credit valuation adjustment ("CVA") risk	97,250	115,588	7,780
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	-	-	-
13	CIS exposures – MBA	-	-	-
14	CIS exposures – FBA	-	-	-
14a	CIS exposures – combination of approaches	-	-	-
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	5,377,725	6,532,200	430,218
21	Of which STM approach	5,377,725	6,532,200	430,218
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	9,939,613	9,808,313	795,169
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	2,094,400	1,806,605	167,552
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	<b>Total</b>	<b>151,571,670</b>	<b>154,595,001</b>	<b>12,125,733</b>



## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 4 Linkages between financial statements and regulatory exposures

#### (a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
<b>Assets</b>							
Cash and balances with banks	60,451,371	60,450,018	60,450,018	–	–	–	–
Placements with banks	22,339,251	22,339,251	22,339,251	–	–	–	–
Loans and advances to customers	89,238,461	89,238,461	89,238,461	–	–	–	–
Financial assets at fair value through profit or loss	1,054,988	1,019,920	13,428	–	–	1,006,135	357
Derivative financial instruments	726,213	726,213	–	726,213	–	726,213	–
Investment securities at fair value through other comprehensive income	40,413,030	40,419,431	40,328,777	–	–	–	90,654
Investment securities at amortised cost	8,009,407	8,009,407	8,009,407	–	–	–	–
Properties for sale	863,718	863,718	863,718	–	–	–	–
Investments in associates and joint venture	431,020	188,000	188,000	–	–	–	–
Investments in and amounts due from subsidiaries	–	322,349	322,349	–	–	–	–
Properties and equipment	2,384,013	2,371,474	2,371,474	–	–	–	–
Investment properties	984,884	1,013,174	1,013,174	–	–	–	–
Deferred income tax assets	432,899	435,259	–	–	–	–	435,259
Other assets	2,615,289	2,568,753	2,250,904	–	–	–	317,849
<b>Total assets</b>	<b>229,944,544</b>	<b>229,965,428</b>	<b>227,388,961</b>	<b>726,213</b>	<b>–</b>	<b>1,732,348</b>	<b>844,119</b>
<b>Liabilities</b>							
Deposits and balances from banks	5,066,976	5,066,976	–	–	–	–	5,066,976
Deposits from customers	179,008,632	179,008,632	–	–	–	–	179,008,632
Derivative financial instruments	749,830	749,830	–	–	–	–	749,830
Amounts due to subsidiaries	–	656,109	–	–	–	–	656,109
Subordinated debts	5,041,686	5,041,686	–	–	–	–	5,041,686
Other liabilities	3,559,900	3,425,204	–	–	–	–	3,425,204
Current income tax liabilities	397,698	397,520	–	–	–	–	397,520
Deferred income tax liabilities	9,001	8,928	–	–	–	–	8,928
<b>Total liabilities</b>	<b>193,833,723</b>	<b>194,354,885</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>194,354,885</b>

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 4 Linkages between financial statements and regulatory exposures (Continued)

#### (b) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to:			
		credit risk framework	securitisation framework	counterparty credit risk framework	market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per Regulatory Disclosures Note 4(a))	229,121,309	227,388,961	–	726,213	1,732,348
Liabilities carrying value amount under regulatory scope of consolidation (as per Regulatory Disclosures Note 4(a))	–	–	–	–	–
Total net amount under regulatory scope of consolidation	229,121,309	227,388,961	–	726,213	1,732,348
Off-balance sheet amounts	39,804,133	4,730,231	–	–	–
Differences due to consideration of provisions	286,191	286,191	–	–	–
Differences due to potential exposures for counterparty risk	604,470	–	–	604,470	–
Differences due to replacement cost for counterparty risk	(587,832)	–	–	(587,832)	–
Other differences	(3,310)	(3,310)	–	–	–
Exposure amounts considered for regulatory purposes	269,224,961	232,402,073	–	742,851	1,732,348

#### (c) Explanations of differences between accounting and regulatory exposure amount

##### Basis of consolidation

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified by the Hong Kong Monetary Authority. Subsidiaries not included in consolidation for regulatory purposes are mainly securities and insurance companies that are authorised and supervised by the Securities and Futures Commission and Insurance Authority respectively.

Most of the principal subsidiaries of the Group are included under scope of regulatory consolidation that there are no material differences between the carrying values of assets as reported in published financial statements and under scope of regulatory consolidation.

Exposure amounts considered for regulatory purposes require adjustments to be made to the carrying value of assets as reported in published financial statements. The main adjustments taken by the Group include the consideration of provisions, off-balance sheet exposures and potential exposure of default risk.

The Group uses the standardised approach to calculate the risk-weighted assets for its credit risk and market risk exposures. For operational risk, the Group uses the basic indicator approach to calculate its operational risk capital charge. During the reporting period, the Group did not have any securitisation exposure. Stage 1 and Stage 2 credit impairment allowances that are deducted from the carrying amount of exposures in the financial statements need to be reintegrated in the regulatory exposure value under the standardised approach. Off-balance sheet contracts, such as guarantees and commitments, also carry credit risks. These exposures are converted to credit equivalent amounts and added to the regulatory exposure amounts. The default risk exposures of OTC derivative contracts as reported in the published financial statements include their fair value only. Potential exposures for counterparty credit risk of OTC derivative contracts are therefore needed to be added to the regulatory exposure amount.

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

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 4 Linkages between financial statements and regulatory exposures (Continued)

#### (c) Explanations of differences between accounting and regulatory exposure amount (Continued)

##### Valuation control framework

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes.

The Risk Committee is delegated by the Board to approve the fair valuation policy and to review the governance structure and control framework to ensure that fair values are either determined or validated by control units independent of risk taking units. Control units have the overall responsibility for determination of valuation or independent verification of valuation results and ensuring the valuation process for financial instruments is conducted effectively and appropriately. Revaluation reports of trading and non-trading positions are compiled regularly and submitted to senior management for review. Any significant valuation issues are reported to senior management, Asset and Liability Committee and Risk Committee.

##### Valuation methodologies and process

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless whether the price is directly observable or estimated using another valuation technique.

For financial instrument with bid-offer close-out price, its fair value can be the price within the bid-offer price that is the most representative of fair value. All bid-offer market prices of the financial products, including foreign exchange, equities, debt securities and interest rate swap will be obtained from designated financial data service providers.

For financial instrument without bid-offer close-out price, the Group uses valuation techniques to establish the fair value of instruments including the use of recent arm's length market transactions between knowledgeable and willing parties, reference to the current fair value of another financial instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

##### Valuation adjustments

Valuation adjustments are an integral part of the valuation process. Appropriate valuation adjustments are made when the Group considers that there are additional factors that are not incorporated within the valuation methodologies or models such as illiquidity adjustment and valuation uncertainty adjustment.

Illiquidity adjustment may be taken if the securities are deemed illiquid, such as where the Group holds a security that has a significant concentration ratio (ratio of amount of security held by the Group to the total issuance size). To adopt illiquidity adjustment, securities with the same issuer and having nearby maturities as the security in subject would be selected and the yields of these securities would be extracted and interpolated as the yield of security in subject and the price of the illiquid security would then be calculated and compared with the price calculated by the usual valuation methodologies and processes.

The prices of certain debt securities may be less readily determinable from market data. If there is no quotation from designated financial data service providers, other sources will be sought such as the prices of most recent executed transactions. Standard deviation of the prices of the debt securities quoted by different rate sources will be calculated as the uncertainty of the prices quoted of the securities. The fair value of the debt securities will be adjusted by the standard deviation of the prices of the corresponding securities.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 4 Linkages between financial statements and regulatory exposures (Continued)

#### (d) Prudent valuation adjustments

As at 31 December 2023, bid-offer spread valuation adjustment was made on certain assets and instruments to take into account the cost that would be incurred when closing out the positions. Other valuation adjustments are not required as most of the Group's investments were listed equities or debt securities of straight bonds that did not contain any complex features.

		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	1,244	-	-	1,244	1,244	-
2	Mid-market value	-	-	-	-	-	-	-	-
3	Close-out costs	-	-	1,244	-	-	1,244	1,244	-
4	Concentration	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	<b>Total adjustments</b>	-	-	<b>1,244</b>	-	-	<b>1,244</b>	<b>1,244</b>	-

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 5 Countercyclical capital buffer (“CCyB”) ratio

CCyB ratio is calculated as the weighted average of the applicable jurisdictional CCyB (“JCCyB”) ratio effective at the date for which the determination is made, in respect of the jurisdictions (including Hong Kong) where the Bank has private sector credit exposures. The weight to be attributed to a given jurisdiction’s applicable CCyB ratio is the ratio of the Bank’s aggregate RWA for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction where the location of the exposures is determined as far as possible on an ultimate risk basis to the sum of the Bank’s aggregate RWA across all jurisdictions in which the Bank has private sector credit exposures.

Key drivers for the changes in exposure amounts include asset quality, credit growth and credit portfolio. The applicable JCCyB ratio for Hong Kong is determined by the Hong Kong Monetary Authority based on the Initial Reference Calculator that is transparently calculated and made public, while the applicable JCCyB ratio in respect of a given jurisdiction outside Hong Kong may differ from the JCCyB ratio as determined by the relevant authority in that jurisdiction if the Hong Kong Monetary Authority has determined and announced the application of a higher or lower rate.

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and which have an applicable JCCyB ratio greater than zero as at 31 December 2023.

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK\$'000	%	HK\$'000
1 Hong Kong SAR	1.00%	67,111,524		
2 Australia	1.00%	351,983		
3 France	0.50%	3,957		
4 Germany	0.75%	74,502		
5 Netherlands	1.00%	10,484		
6 United Kingdom	2.00%	660,747		
<b>Sum</b>		<b>68,213,197</b>		
<b>Total</b>		<b>105,942,982</b>	<b>0.65%</b>	<b>985,216</b>

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 6 Leverage ratio

The leverage ratio ("LR") represents the consolidated ratio computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the summary comparison of accounting assets against leverage ratio exposure measure as at 31 December 2023.

Item	Value under the LR framework
1 Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	230,369,882
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	20,884
2a Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
3a Adjustments for eligible cash pooling transactions	–
4 Adjustments for derivative contracts	(29,917)
5 Adjustment for SFTs (i.e. repos and similar secured lending)	–
6 Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	7,798,567
6a Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(425,338)
7 Other adjustments	(1,512,073)
8 <b>Leverage ratio exposure measure</b>	<b>236,222,005</b>

The leverage ratios as at 31 December 2023 and 30 September 2023 are shown below:

	31 December 2023	30 September 2023
<b>On-balance sheet exposures</b>		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	229,664,553	224,694,191
2 Less: Asset amounts deducted in determining Tier 1 capital	(1,512,073)	(1,380,317)
3 <b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>228,152,480</b>	<b>223,313,874</b>
<b>Exposures arising from derivative contracts</b>		
4 Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	65,641	99,691
5 Add-on amounts for PFE associated with all derivative contracts	630,655	752,959
6 Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7 Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
8 Less: Exempted CCP leg of client-cleared trade exposures	–	–
9 Adjusted effective notional amount of written credit-related derivative contracts	–	–
10 Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	–	–
11 <b>Total exposures arising from derivative contracts</b>	<b>696,296</b>	<b>852,650</b>

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 6 Leverage ratio (Continued)

		31 December 2023	30 September 2023
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transaction exposures	–	–
16	<b>Total exposures arising from SFTs</b>	–	–
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	39,804,133	42,740,255
18	Less: Adjustments for conversion to credit equivalent amounts	(32,005,566)	(34,561,698)
19	<b>Off-balance sheet items</b>	7,798,567	8,178,557
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	34,098,470	34,144,992
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	236,647,343	232,345,081
20b	<b>Adjustments for specific and collective provisions</b>	(425,338)	(823,719)
21	<b>Total exposures after adjustments for specific and collective provisions</b>	236,222,005	231,521,362
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	14.4%	14.7%

Abbreviations:

CCP:	Central counterparty
CCR:	Counterparty credit risk
PFE:	Potential future exposure
SFT:	Securities financing transactions

### 7 Credit risk

#### (a) General information about credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. The Group's exposure to credit risk arises from a range of customer and product types, including exposures to corporate, retail and high net worth customers. The major corporate banking products offered by the Group include commercial loans and trade finance. The retail loans cover mortgage loans, consumer loans and credit cards.

The approach used for defining credit risk management policy and setting credit risk limits is described in Note 3.1 of Notes to the Consolidated Financial Statements.

Various analytical reports on credit risk exposures and credit risk management are provided monthly to senior management; including reports on loans and advances to customers, the credit risk profile of the Group, the portfolio distribution and credit quality, credit portfolio risk monitoring and compliance, impairment allowance and large exposures and risk concentrations.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (a) General information about credit risk (Continued)

##### Credit risk management framework

The Group's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Credit Committee is responsible for establishing credit policies, monitoring loan portfolio quality and impairment charge, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions and etc. Further information on the Credit Committee is set out in the Corporate Governance Report included in the 2023 Annual Report.

The Chief Risk Officer takes charge of the Group's overall credit risk management. He is responsible for ensuring that the Group's risk management framework, all related policies and control procedures, and business processes are effective, adequate and properly implemented and consistent with the overall risk appetite of the Group and credit related regulatory requirements. He is also responsible for assessing, evaluating and monitoring the use of risk limits and ensuring that quantifiable risks are within the approved limits.

Various units of the Group have their respective credit risk management responsibilities. Business units including branches and business departments, being the first line of defence, are responsible for performing on-going 'know your customer' checks. The Credit Appraisal Department, Credit Control Department, Credit Review & Policy Department, Market Risk & Risk Analytics Department and the Compliance Department, which are independent from the business units, act as the second line of defence. The Credit Appraisal Department is responsible for independent evaluation of credit applications, Credit Review & Policy Department is responsible for performing periodic credit review and formulating and reviewing credit risk policies and guidelines while Credit Control Department is responsible for performing credit control and monitoring. The Market Risk & Risk Analytics Department is responsible for monitoring the day-to-day management of the credit risk related to treasury operation. The Compliance Department is responsible for monitoring and ensuring that all the relevant regulatory and statutory requirements and limits are complied with by the Group. The Internal Audit Department is responsible for conducting regular review on the adequacy and effectiveness of the credit risk control and governance processes of the Group, and compliance with regulatory and statutory requirements.

#### (b) Credit quality of exposures as at 31 December 2023

	Gross carrying amounts of			Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	511,485	89,113,796	386,820	118,954	267,866	-	89,238,461
2	Debt securities	-	44,797,036	244	-	244	-	44,796,792
3	Off-balance sheet exposures	-	9,120,772	5,505	-	5,505	-	9,115,267
4	<b>Total</b>	<b>511,485</b>	<b>143,031,604</b>	<b>392,569</b>	<b>118,954</b>	<b>273,615</b>	<b>-</b>	<b>143,150,520</b>



## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (c) Changes in defaulted loans and debt securities

	Amount
1 Defaulted loans and debt securities as at end June 2023	643,414
2 Loans and debt securities that have defaulted since the last reporting period	153,340
3 Returned to non-defaulted status	(35,240)
4 Amounts written off	(243,939)
5 Other changes	(6,090)
6 Defaulted loans and debt securities as at end December 2023	511,485

#### (d) Additional disclosures related to credit quality of exposures

The accounting definition of impaired exposures and the regulatory definition of defaulted exposures are generally aligned. In general, loans and advances overdue for more than 90 days are considered impaired unless other information is available to indicate the contrary. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Loans and advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

The approach for determining impairment of financial assets is provided in Notes 2.6 and 3.1.1 of Notes to the Consolidated Financial Statements.

As at 31 December 2023, loans and advances which were past due for more than 90 days were all impaired.

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. A rescheduled loan will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (d) Additional disclosures related to credit quality of exposures (Continued)

##### (i) Breakdown of credit risk exposures as at 31 December 2023 by industry sector, geographical region and residual maturity

	Total	Impaired exposure	Stage 3 impairment allowances	Amounts written-off
<b>Credit risk exposure – By industry sector</b>				
– Property development	24,735,115	307,910	–	7,838
– Property investment	21,352,306	253,122	–	137,200
– Banks and financial institutions	23,546,140	237,418	59,557	562,582
– International, wholesale and retail trade	14,350,692	128,150	4,895	153,013
– Personal	12,794,043	47,197	4,158	1,088
– Others*	46,372,224	1,572,515	50,344	1,149,180
<b>Total</b>	<b>143,150,520</b>	<b>2,546,312</b>	<b>118,954</b>	<b>2,010,901</b>
<b>Credit risk exposure – By geographical region</b>				
– Hong Kong	80,678,540	2,078,189	118,952	1,757,370
– Mainland China	9,819,382	65,697	–	230,101
– United States	29,478,947	402,423	–	23,430
– Others	23,173,651	3	2	–
<b>Total</b>	<b>143,150,520</b>	<b>2,546,312</b>	<b>118,954</b>	<b>2,010,901</b>
<b>Credit risk exposure – By residual maturity</b>				
– Repayable on demand	5,117,098			
– Up to 1 month	15,788,956			
– 1-3 months	15,042,308			
– 3-12 months	43,641,226			
– 1-5 years	44,087,182			
– Over 5 years	16,258,136			
– Indefinite	3,215,614			
<b>Total</b>	<b>143,150,520</b>			

\* Others include exposures to manufacturing, hotels, catering, telecommunication, transport and other commercial and industrial activities where exposure to each of these sectors is less than 10% of the Group's total RWA for credit risk.

##### (ii) Aging analysis of accounting past due exposures as at 31 December 2023

	Gross carrying amount
Past due over 3 months but less than 6 months	44,019
Past due over 6 month but less than 1 year	84,830
Past due over 1 year	382,636
<b>Total</b>	<b>511,485</b>

##### (iii) Breakdown of restructured exposures between impaired and non-impaired exposures as at 31 December 2023

	Gross carrying amount of	
	Impaired	Not impaired
Rescheduled loans and advances	12,697	–

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (e) Qualitative disclosures related to credit risk mitigation

##### Collateral

The Group employs a range of policies and practices to mitigate credit risk which is described in Note 3.1.4(a) of Notes to the Consolidated Financial Statements.

##### Revaluation and management of collateral

To ascertain the estimated fair value of the collateral offered to the Group, collateral other than the bank deposits is revalued according to the Guideline on Management of Collateral and Guarantees for monitoring the collateral position against relevant credit exposure.

The revaluation frequency depends on the collateral type but at least annually such as real estate, debt securities and equities. More frequent revaluation is needed for certain products, such as listed stocks which are revalued at least twice daily. The collateral value may be adjusted to reflect the likely net realizable value of such collateral.

Advice and service will be sought and employed from external legal professional whenever required to ensure all documentation creating the collateral and providing for the obligation of the parties with respect to each other in respect of the collateral is binding on all parties and legally enforceable in all relevant jurisdictions.

##### Recognition of risk mitigation under the standardised approach

The Group applies the simple approach for credit risk mitigation to all its on- and off-balance sheet banking book exposures that are subject to risk mitigation. Where a claim on a counterparty is secured against eligible collateral, the secured portion of the claim must be weighted according to the risk-weight applicable to the collateral (unless that produces a higher risk-weight than would be applicable to the original counterparty, in which case the risk-weight applicable to that counterparty should apply). The unsecured portion of the claim must be weighted according to the risk-weight applicable to the original counterparty. The main types of recognised credit risk mitigant used by the Group include deposits and bank guarantee. In addition, real estate collateral is also recognised for past due exposures.

Where a claim on a counterparty is secured by a guarantee from an eligible guarantor, the portion of the claim that is supported by the guarantee is to be weighted according to the risk-weight applicable to the guarantor (unless the risk-weight applicable to the original counterparty is lower). The unsecured portion of the claim must be weighted according to the risk-weight applicable to the original counterparty.

For capital calculation, the Group has not used any on-balance sheet or off-balance sheet recognised netting for credit risk mitigation.

##### Concentrations within credit risk mitigations

Concentrations within credit risk mitigations taken may occur if a number of guarantors and collaterals with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. A range of quantitative tools is used to monitor the Group's credit risk mitigating activities including dedicated stress tests.

Stress-tests and scenario analysis are conducted on the Group's portfolio of collateral to assess the impact under unusual market conditions and relevant reports are submitted to the senior management for review in accordance with the Stress-Testing Policy of the Group.

The credit concentrations within the credit risk mitigation (recognised collateral and guarantees for capital calculation) used by the Group are within acceptable levels.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (f) Overview of recognised credit risk mitigation as at 31 December 2023

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1 Loans	87,192,966	2,045,495	2,040,940	4,555	–
2 Debt securities	44,796,792	–	–	–	–
3 <b>Total</b>	<b>131,989,758</b>	<b>2,045,495</b>	<b>2,040,940</b>	<b>4,555</b>	–
4 Of which defaulted	28,540	487,515	487,515	–	–

#### (g) Qualitative disclosures on use of ECAI ratings under STC approach

Under the standardised approach (“STC”) for the calculation of credit risk within the Basel capital framework, banks are required to use credit assessments provided by external credit assessment institutions (“ECAIs”), recognised by the Hong Kong Monetary Authority for the purposes of regulatory capital calculation, to determine the risk-weights of the banks’ credit exposures.

S&P Global Ratings, Moody’s Investors Service, Fitch Ratings and Rating and Investment Information, Inc. are the ECAIs that the Group has used for the determination of risk weightings for the following classes of exposure:

- Sovereign exposures;
- Public sector entity exposures;
- Bank exposures;
- Securities firm exposures;
- Corporate exposures; and
- Collective investment scheme exposures.

The mapping of ECAI ratings of the above six classes of exposure to the risk weights under STC follows the process as prescribed in Part 4 of the Banking (Capital) Rules. Where an exposure of debt securities has an issue-specific external credit assessment, such assessment will be used. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by the BCR.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach as at 31 December 2023

Exposure classes		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	8,785,776	–	8,788,293	–	150,563	2%
2	PSE exposures	5,618,725	250,000	5,616,208	125,000	1,148,242	20%
2a	Of which: domestic PSEs	4,781,355	250,000	4,778,838	125,000	980,768	20%
2b	Of which: foreign PSEs	837,370	–	837,370	–	167,474	20%
3	Multilateral development bank exposures	3,874,567	–	3,874,567	–	–	–
4	Bank exposures	92,517,016	444,061	92,519,908	106,204	25,646,612	28%
5	Securities firm exposures	645,490	3,244,833	645,490	–	322,745	50%
6	Corporate exposures	90,080,810	25,432,371	89,142,041	3,409,108	86,040,131	93%
7	CIS exposures	–	–	–	–	–	–
8	Cash items	817,660	–	2,371,085	–	229,580	10%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–
10	Regulatory retail exposures	2,986,670	2,294,940	2,904,960	113,568	2,263,896	75%
11	Residential mortgage loans	6,667,850	1,845,226	6,667,850	922,613	3,484,909	46%
12	Other exposures which are not past due exposures	14,323,463	6,292,702	13,787,625	53,738	13,841,363	100%
13	Past due exposures	516,055	–	516,055	–	530,325	103%
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	<b>Total</b>	<b>226,834,082</b>	<b>39,804,133</b>	<b>226,834,082</b>	<b>4,730,231</b>	<b>133,658,366</b>	<b>58%</b>

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 7 Credit risk (Continued)

#### (i) Credit risk exposures by asset classes and by risk weights – for STC approach as at 31 December 2023

Exposure class	Risk Weight										Total credit risk exposures amount (post CCF and post CRM)
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1 Sovereign exposures	8,035,480	-	752,813	-	-	-	-	-	-	-	8,788,293
2 PSE exposures	-	-	5,741,208	-	-	-	-	-	-	-	5,741,208
2a Of which: domestic PSEs	-	-	4,903,838	-	-	-	-	-	-	-	4,903,838
2b Of which: foreign PSEs	-	-	837,370	-	-	-	-	-	-	-	837,370
3 Multilateral development bank exposures	3,874,567	-	-	-	-	-	-	-	-	-	3,874,567
4 Bank exposures	-	-	68,895,630	-	23,725,992	-	4,490	-	-	-	92,626,112
5 Securities firm exposures	-	-	-	-	645,490	-	-	-	-	-	645,490
6 Corporate exposures	-	-	143,927	-	12,791,750	-	79,615,472	-	-	-	92,551,149
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8 Cash items	1,527,011	-	768,117	-	-	-	75,957	-	-	-	2,371,085
9 Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10 Regulatory retail exposures	-	-	-	-	-	3,018,528	-	-	-	-	3,018,528
11 Residential mortgage loans	-	-	-	6,264,407	-	134,758	1,191,298	-	-	-	7,590,463
12 Other exposures which are not past due exposures	-	-	-	-	-	-	13,841,363	-	-	-	13,841,363
13 Past due exposures	-	-	-	-	-	-	487,515	28,540	-	-	516,055
14 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15 Total	13,437,058	-	76,301,695	6,264,407	37,163,232	3,153,286	95,216,095	28,540	-	-	231,564,313

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 8 Counterparty credit risk

#### (a) Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Counterparty credit risk arises from over-the-counter (“OTC”) derivative contracts and securities financing transactions both in trading and banking books, and is subject to the same risk management framework. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. The Group adopts the standardised (counterparty credit risk) approach (“SA-CCR”) to measure the credit equivalent amount, which comprises replacement cost and potential future exposure, multiplied by a scaling factor of 1.4. The relevant counterparty default risk capital charge is calculated under the standardised approach. The Group also adopts the standardised credit valuation adjustment (“CVA”) method to calculate the relevant counterparty CVA capital charge.

The Group exercises strict control over counterparty credit risk exposure, including central counterparty (“CCP”). All credit limits are established in advance of transaction. Credit and settlement risk is captured, monitored and reported in accordance with the Group risk methodologies. The credit risk exposures associated with these contracts are predominantly their positive marked-to-market values. These credit risk exposures together with potential exposures from market movements are managed as part of the overall lending limits allowed to counterparties. In instance of financial institutions, close-out netting agreement (International Swaps and Derivatives Association “ISDA”) and/or collateral netting agreement (Credit Support Annex “CSA”) are used, while the Group generally requires margin deposits from corporate, commercial and retail customers for risk mitigation purpose. In the case of a 2-notch downgrade of the Group’s credit rating, the impact on the Group’s derivative collateral requirements is minimal.

Wrong-way risk occurs when the probability of default of a counterparty is positively correlated with general market risk factors (general wrong-way risk), and when exposure to a counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty (specific wrong-way risk). The Group monitors and mitigates wrong-way risk by restricting the receipt of eligible collateral to low-risk and high-liquidity cash and bonds issued by sovereigns, central banks and multilateral development banks.

#### (b) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 31 December 2023

		Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR approach (for derivative contracts)	98,844	431,764		1.4	742,851	404,316
1a	CEM (for derivative contracts)	–	–		1.4	–	–
2	IMM (CCR) approach			–	–	–	–
3	Simple approach (for SFTs)					–	–
4	Comprehensive approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	<b>Total</b>						<b>404,316</b>

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 8 Counterparty credit risk (Continued)

#### (c) CVA capital charge as at 31 December 2023

		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method		
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	742,851	97,250
4	<b>Total</b>	<b>742,851</b>	<b>97,250</b>

#### (d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 31 December 2023

Exposure class	Risk Weight											Total default risk exposure after CRM
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
1 Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	-
2 PSE exposures	-	-	-	-	-	-	-	-	-	-	-	-
2a Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	-
2b Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	-
3 Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	-
4 Bank exposures	-	-	151,463	-	395,419	-	-	-	-	-	-	546,882
5 Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-	-
6 Corporate exposures	-	-	-	-	39,313	-	81,105	-	-	-	-	120,418
7 CIS exposures	-	-	-	-	-	-	-	-	-	-	-	-
8 Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
9 Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-
10 Other exposures which are not past due exposures	-	-	-	-	-	-	75,551	-	-	-	-	75,551
11 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	-
12 <b>Total</b>	-	-	151,463	-	434,732	-	156,656	-	-	-	-	742,851



## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 8 Counterparty credit risk (Continued)

(e) **Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 31 December 2023**

	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash – other currencies	–	116,873	–	136,001	–	–
2 Total	–	116,873	–	136,001	–	–

(f) **Credit-related derivatives contracts**

The Group did not have any credit-related derivatives contracts as at 31 December 2023.

(g) **Exposures to CCPs**

The Group did not have any exposures to CCPs as at 31 December 2023.

### 9 Market risk

(a) **Qualitative disclosures related to market risk**

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly foreign exchange and equity contracts, that comprise transactions initiated for the Group's own account and customer needs.

The Group's positions are managed by the Treasury Division under the limits and guidelines laid down in the foreign exchange risk management policy and the policy on allocating transactions of financial instruments to the trading, non-trading or investment book, which are approved by the Executive Committee. The Risk Management Division is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

Further information on the management of foreign exchange risk and interest rate risk is provided in Note 3.2.3 and Note 3.2.4 of Notes to the Consolidated Financial Statements respectively.

**Market risk measurement**

The measuring procedures and limit structure used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Risk Committee and the Board.

The Group measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides the Group with a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category would then give the Group an indication of the extent to which the Group is exposed to the risk of potential changes in the net interest income.

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The types of derivatives used by the Group including foreign exchange rate and interest rate contracts are managed within limits approved by the Executive Committee. The Group has not designated any derivatives in any hedge relationship for the application of hedge accounting.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 9 Market risk (Continued)

#### (b) Market risk under STM approach as at 31 December 2023

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	374,775
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	4,988,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	14,950
7	Other approach	–
8	Securitization exposures	–
9	<b>Total</b>	<b>5,377,725</b>

### 10 Liquidity risk

#### (a) Qualitative disclosure related to liquidity risk management

##### Governance of liquidity risk management

The Group's risk tolerance describes the level of risk that the Group is prepared to accept to achieve its strategic and business objectives. The risk tolerance is reviewed and approved by the Board periodically but at least annually with reference to changing industry and market developments. An acceptable risk tolerance is adopted in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns. Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure under an acceptable risk tolerance level and commensurate with prudent liquidity risk management practices.

The Board is ultimately responsible for overseeing the Group's liquidity risk management structure. The Risk Committee is delegated by the Board to oversee the Group's liquidity risk management, including approval of liquidity risk management policies and risk limits. The Asset and Liability Committee is delegated by the Board to oversee the Group's liquidity strategy, policies and practices. Liquidity costs, benefits and risks are incorporated in the internal pricing, performance measurement and new product approval process for all significant activities, both on- and off-balance sheet.

The Risk Management Division is responsible for the day-to-day liquidity risk management. The Group's liquidity is managed by the Treasury Division in accordance with the guidelines and procedures laid down in the liquidity risk management policy.

##### Liquidity risk management

The Bank's operation is mainly funded by customer deposits and shareholders' funds. Diversified and stable funding sources are maintained by determining the appropriate mix of liabilities and building strong and lasting relationships with key fund providers in accordance with the liquidity risk management policy.

Liquidity is managed on a group basis, covering both the local and overseas operations as well as all related entities of the Bank. The formulation and management of the Group's funding strategy is centralised at the Treasury Division.

Adequate liquidity will be maintained at all times to meet obligations when they fall due in normal circumstances and an appropriate mix of additional stock of high quality liquid assets will be maintained to provide contingent liquidity in the event of a funding crisis. The normal borrowing capacity to obtain funds in the interbank market is estimated based on past experience and the wholesale funding need for both local and foreign currencies are limited to the amount which are comfortably within that borrowing capacity.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 10 Liquidity risk (Continued)

#### (a) Qualitative disclosure related to liquidity risk management (Continued)

##### Liquidity risk management (Continued)

Liquidity risk is managed with regard to a variety of factors, including the liquidity maintenance ratio, core funding ratio, loan to deposit ratio, size of the liquidity cushion, maturity mismatch profile, the diversity and stability of the deposit base, and the ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is maintained at all times in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

##### Stress testing

The stress-testing results form an important component in assisting the Risk Committee in reviewing and endorsing the Group's risk tolerance levels, which are defined by internal limits on various risk ratios, as well as assisting the Asset and Liability Committee in managing the overall liquidity of the Group and to make informed strategic business decisions.

##### Contingency funding plan

The Contingency Funding Plan is a component of the Group's Business Continuity Plan, and describes the Group's strategy for dealing with any liquidity problems, and the procedures for making up cash flow deficits in emergency situations.

#### (b) Quantitative disclosure

##### Customised measurement tools or metrics

A cash-flow approach is adopted to managing liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The starting point for the projection is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The projection is forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projection is made over daily time bands of up to 7 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projection covers positions in HK dollar and in all currencies in aggregate. Separate cash-flow projections are also performed for individual foreign currencies in which there are significant positions, such as US dollar and the renminbi.

##### Concentration limits on collateral pools and sources of funding

Retail deposits account for an important part of the Group's funding base, and the composition and quality of such deposits are carefully monitored and managed. Core deposits are characterised by their stability and reliability and are identified based on internally defined criteria. An internal target is set for the proportion of core deposits against total deposits.

##### Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries

The Group is not required to calculate the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") under the Banking (Liquidity) Rules. Instead, the Liquidity Maintenance Ratio ("LMR") and the Core Funding Ratio ("CFR") are used to measure respectively the short-term and long-term liquidity exposures of the Group against its funding needs. The LMR is the ratio of liquefiable assets to qualifying liabilities for the coming one month. Under the Banking (Liquidity) Rules, the Group is subject to the statutory limit of the LMR, which is prescribed at 25%. The CFR is the ratio of the amount of available core funding to the amount of required core funding and measures the availability of funding from capital and liabilities to cover the amount of assets and off-balance sheet obligations that need to be funded. Under the Banking (Liquidity) Rules, the Group is under regulation to maintain a CFR of not less than 75% on average in each calendar month. Funding or liquidity support is provided to all branches outside of Hong Kong and such support is appropriately accounted for. The funding positions of the branches outside of Hong Kong are closely monitored and any regulatory or legal impediments to accessing liquidity will be addressed on a group basis. Other than branches outside of Hong Kong, the liquidity needs of other group companies are insignificant.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 10 Liquidity risk (Continued)

#### (b) Quantitative disclosure (Continued)

##### Contractual maturity profile

	Next day	Within 1 month	> 1 month up to 3 months	> 3 months up to 1 year	> 1 year up to 5 years	Over 5 years	Balancing amount
Currency notes and coins	740,596	-	-	-	-	-	-
Amount receivable arising from derivative contracts	1,533	271,885	299,965	156,595	12,209	-	-
Due from MA for a/c of Exchange Fund	2,259,556	-	-	-	-	-	-
Due from overseas central banks	815,729	-	-	-	-	-	82,111
Due from banks	13,279,507	43,289,802	21,461,339	878,359	-	-	-
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	42,957,140	241,548	376,146	462,616	1,464,002	293,419	2,874
Acceptances and bills of exchange held	85,369	39,509	10,045	1,869	-	-	-
Loans and advances to non-bank customers	6,881,472	9,642,547	6,253,244	20,552,333	29,969,092	12,877,214	5,725,488
Other assets	345,714	594,530	215,251	452,263	1,000,954	57,201	7,280,819
<b>Total on-balance sheet assets</b>	<b>67,366,616</b>	<b>54,079,821</b>	<b>28,615,990</b>	<b>22,504,035</b>	<b>32,446,257</b>	<b>13,227,834</b>	<b>13,091,292</b>
<b>Total off-balance sheet claims</b>	<b>156,259</b>	<b>444,061</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>634,389</b>
Deposits from non-bank customers	51,240,476	43,104,828	57,777,493	26,699,265	449,091	11,812	-
Amount payable arising from derivative contracts	3,871	288,815	319,448	145,192	11,934	-	-
Due to MA for a/c of Exchange Fund	-	-	390,648	-	-	-	-
Due to banks	1,951,537	2,541,564	1,113,113	27,527	-	-	-
Other liabilities	603,422	1,114,184	701,715	613,750	104,917	76,649	-
Capital and reserves	-	2,335,113	-	-	2,706,573	-	36,582,478
<b>Total on-balance sheet liabilities</b>	<b>53,799,306</b>	<b>49,384,504</b>	<b>60,302,417</b>	<b>27,485,734</b>	<b>3,272,515</b>	<b>88,461</b>	<b>36,582,478</b>
<b>Total off-balance sheet obligations</b>	<b>1,056,316</b>	<b>3,013,934</b>	<b>2,628,549</b>	<b>12,330,232</b>	<b>2,457,270</b>	<b>1,639,475</b>	<b>-</b>
<b>Contractual Maturity Mismatch</b>	<b>12,667,253</b>	<b>2,125,444</b>	<b>(34,314,976)</b>	<b>(17,311,931)</b>	<b>26,716,472</b>	<b>11,499,898</b>	
<b>Cumulative Contractual Maturity Mismatch</b>	<b>12,667,253</b>	<b>14,792,697</b>	<b>(19,522,279)</b>	<b>(36,834,210)</b>	<b>(10,117,738)</b>	<b>1,382,160</b>	

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 11 Interest rate risk in the banking book (“IRRBB”)

Qualitative disclosure and quantitative disclosure are described in Note 3.2.4 of Notes to the Consolidated Financial Statements.

### 12 Non-bank Mainland exposures

The Bank	2023			2022		
	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
Types of counterparties						
1. Central government, central government-owned entities and their subsidiaries and joint ventures	2,674,278	72,613	2,746,891	4,012,715	4,419	4,017,134
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	-	-	-	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	8,411,780	1,117,658	9,529,438	8,902,883	1,321,000	10,223,883
4. Other entities of central government not reported in item 1 above	354,024	-	354,024	70,855	-	70,855
5. Other entities of local governments not reported in item 2 above	140,067	-	140,067	160,580	-	160,580
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,492,634	763,260	6,255,894	5,025,023	398,777	5,423,800
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,603,260	6	1,603,266	818,436	582	819,018
<b>Total</b>	<b>18,676,043</b>	<b>1,953,537</b>	<b>20,629,580</b>	<b>18,990,492</b>	<b>1,724,778</b>	<b>20,715,270</b>
Total assets after provisions	221,673,471			212,670,991		
On-balance sheet exposures as percentage of total assets	8.43%			8.93%		

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 13 Currency concentrations

Equivalent in Hong Kong Dollars	2023						
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/(short) position	Net structural position
US Dollars	93,411,000	(92,494,000)	47,660,000	(46,189,000)	(115,000)	2,273,000	6,469,000
Pound Sterling	8,314,000	(5,588,000)	3,064,000	(5,891,000)	–	(101,000)	4,000
Euro Dollars	1,230,000	(1,296,000)	1,582,000	(1,517,000)	(21,000)	(22,000)	–
Renminbi	18,850,000	(17,864,000)	8,975,000	(9,055,000)	–	906,000	3,888,000
Canadian Dollars	1,405,000	(1,393,000)	11,000	(14,000)	–	9,000	–
Australian Dollars	2,738,000	(2,740,000)	2,172,000	(2,126,000)	–	44,000	–
Other currencies and gold	2,015,000	(1,702,000)	8,211,000	(8,592,000)	136,000	68,000	–
	127,963,000	(123,077,000)	71,675,000	(73,384,000)	–	3,177,000	10,361,000

Equivalent in Hong Kong Dollars	2022						
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/(short) position	Net structural position
US Dollars	92,566,000	(87,407,000)	50,099,000	(53,559,000)	(359,000)	1,340,000	5,684,000
Pound Sterling	8,616,000	(5,998,000)	3,012,000	(5,727,000)	–	(97,000)	69,000
Euro Dollars	1,479,000	(1,566,000)	335,000	(407,000)	93,000	(66,000)	–
Renminbi	22,749,000	(22,083,000)	4,096,000	(4,205,000)	(8,000)	549,000	3,852,000
Canadian Dollars	1,484,000	(1,468,000)	22,000	(23,000)	–	15,000	–
Australian Dollars	2,447,000	(2,472,000)	1,340,000	(1,308,000)	–	7,000	–
Other currencies and gold	2,575,000	(1,409,000)	3,026,000	(4,363,000)	274,000	103,000	–
	131,916,000	(122,403,000)	61,930,000	(69,592,000)	–	1,851,000	9,605,000

The net options position is calculated based on the delta-weighted positions of all foreign exchange option contracts.

The above disclosure is based on the significance of the Group's foreign currency exposures of the current year.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 14 Disclosure on remuneration

#### Guiding principles

The Bank aims to sustain long-term capital preservation and financial strength for the benefits of all stakeholders and is committed to promoting a sound corporate culture of prudent risk-taking at all levels of the Bank, with staff at all times conscientiously serving the Bank by adhering to the established values. The Remuneration Policy (the "Policy") of the Bank is designed to promote fairness and consistency in the compensation approach; to attract, motivate and retain talents, to create and sustain a strong corporate culture that would drive performance prudently and appropriately as well as to help achieve the business goals under prudent risk management principles.

The Policy applies to the Bank in Hong Kong and its subsidiaries, where appropriate. While the basic principles are applicable to foreign branches, they are also subject to their local regulatory requirements in respective jurisdictions.

#### Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the "Committee") is established with written Terms of Reference defining its authority and duties, regarding the remuneration aspect, to oversee the formulation and implementation of a sound remuneration policy by the Bank, and to ensure its consistency with the Bank's culture, long-term business and risk appetite, performance and control environment, the best practices and applicable legal and regulatory requirements; to review and make recommendations to the Board on the remuneration packages of all Directors, Chief Executive, senior management and key personnel of the Bank; to ensure a regular review on the Bank's remuneration system and its operation; to ensure that no Director, Chief Executive or any of their associates is involved in deciding their own remuneration; and to review and make recommendations to the Board on culture-related matters of the Bank.

Directly appointed by the Board of the Bank, majority of the members of the Committee are Independent Non-executive Directors. The Committee is chaired by Mr. Johnson Mou Daid CHA. The other members are Mr. Stephen Ching-yen LEE and Mr. Gordon Che-keung KWONG.

In 2023, the Committee held two physical meetings, mainly to approve the annual independent review report on the Bank's remuneration system carried out by Internal Audit Department; to review and approve the Remuneration Policy in response to the change in fixed remuneration structure of the Bank and the Hong Kong Monetary Authority Supervisory Policy Manual CG-5 "Guideline on a Sound Remuneration System" ("CG-5"); to review the annual performance evaluation of Chief Executive and Deputy Chief Executives; to review and recommend to the Board discretionary bonus mechanism and the remuneration packages of senior management and key personnel (inclusive of the vesting of the previous years' deferred portion); and to review the culture-related matters of the Bank.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 14 Disclosure on remuneration (Continued)

#### Remuneration policy

The Committee reviews the Policy and the remuneration system at least annually and any material changes to the Policy will be submitted to the Board for approval. The review in 2023 mainly covered the change in fixed remuneration structure of the Bank and the deferral arrangements of variable remuneration of senior management and key personnel for better alignment of the remuneration structure with market benchmark and ensuring the consistency of the Policy with the expectation outlined in the CG-5, leading to a more prudent remuneration system that is consistent with the Bank's risk appetite.

The Committee may at its discretion seek information and recommendations from relevant departments, committees or independent consultant as appropriate when conducting the review. In 2023, the Committee has not sought advice from external consultant on remuneration matters but has commissioned Internal Audit Department to conduct an independent review on the effectiveness of the Bank's remuneration system to ensure compliance with the principles set out in CG-5.

#### Remuneration of directors, senior management and key personnel

The Committee is responsible for making recommendations to the Board on the formulation and review of the remuneration packages for Directors, the Chief Executive, senior management and key personnel, with reference to the Bank's financial condition and future prospect, risk management framework, reward and people strategies. Such packages are subject to the final approval of the Board.

The following groups of employees have been identified as the "Senior Management" and "Key Personnel" as defined in CG-5:

"Senior management" of the Bank includes the Chief Executive, Deputy Chief Executives and Division Chiefs of the Bank who report directly to Chief Executive and are responsible for the development and execution of Bank-wide strategy and/or activities and are collectively responsible for the risks that may arise.

"Key personnel" refers to individual staff member whose duties or activities in the course of the employment involve the assumption of material risks or the taking on of material exposures on behalf of the Bank.

No individual director/staff or any of his/her associates shall be involved in deciding his/her own remuneration package.

#### Remuneration structure

The remuneration package is a combination of fixed and variable remuneration. Fixed remuneration consists of basic salary, allowances and provident fund contribution. Variable remuneration takes into account the overall financial and non-financial performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies, compliance with legal and regulatory requirements and ethical standards. The variable remuneration is awarded in the form of cash bonus and/or cash incentives.

A proportion of the variable remuneration of senior management and key personnel will be deferred and the vesting criteria of the deferred payment are subject to the impact of financial and non-financial factors over a period of time.



## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 14 Disclosure on remuneration (Continued)

#### Performance measurements and the distribution of variable remuneration

The Bank maintains a performance evaluation scheme to ensure individual staff performance, which covers financial, non-financial and risk factors, would be differentiated into various levels, and be adequately and effectively evaluated. Adverse performance in non-financial factors, such as non-adherence to risk management policies, non-compliance with internal and regulatory standards, shall outweigh financial achievements. Final approval of the discretionary bonus which is all cash-based is determined by various quantitative and qualitative assessment criteria set out in the performance appraisal system.

The employees within risk control functions are remunerated independently. The performance of business units where they oversee does not affect their remuneration. Management of business units should not be involved in determining the remuneration of the employees in risk control functions.

When deciding the remuneration measures, the Bank shall also take into account certain key risk factors such as its asset quality, liquidity position, business environments, respective staff performance, the overall business results as well as long-term financial position. When reviewing and determining the discretionary bonus scheme, various financial and non-financial criteria including the individual performance of the staff by measuring against key performance indicators, adherence to the Bank's established values, implementation and accomplishment of business strategies, goals and objectives of the business and/or functional units under his/her supervision, compliance with regulatory requirements, adherence to risk management policies, code of conduct and ethical standards shall be taken into account. The overall performance of the Bank, and other factors that might have an impact on the future profitability, liquidity, financials and payout of the Bank should also be considered. The criteria of discretionary incentive payment shall include non-financial factors such as adherence to compliance and quality assurance requirements, positive customer outcomes including but not limited to customer satisfaction, providing accurate and sufficient information, offering right products and service offered, meeting customer reasonable expectation, and etc. which outweigh the quantitative targets. The established remuneration measures continued to apply in 2023. The timing and the portion of the performance related bonus distribution are vested in the Committee and finally with the Board. The bonus (or part of it) may be withheld if the Bank's performance is not justified, or if the business objectives are not achieved, or when it is necessary to protect the financial soundness of the Bank. In the event that a staff is accountable for serious misconduct behaviour, including but not limited to, non-compliance with applicable laws, rules, regulations, policies, guidelines, etc. that leads to significant loss for the Bank, fraud or serious breach of internal rules, the performance evaluation of the staff should record the incident. Further, the salary and variable remuneration reviews (bonus and/or incentive payment), if any, should consider to reflect the misconduct outcome such as a reduction in variable remuneration, after taking into account the relevant indicators of the severity of the impact to the Bank.

#### Deferral arrangements

In view of the Bank's existing business model and organization structure, a portion of the discretionary bonus payment of senior management and key personnel is subject to an incremental deferral percentage to reflect their seniority, roles and responsibilities and bonus quantum, and vesting by equal portions over a period of three years in order to align with the long-term value creation and time horizons of risk. In circumstances where it is later established that any performance measurement is proven to have been manifestly misstated, or it is later established that the employee concerned has committed fraud, malfeasance, or has violated material internal control policies or breached the relevant rules and regulations, all or part of the unvested deferred variable remuneration for a particular year shall be foregone.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 14 Disclosure on remuneration (Continued)

#### Senior management and key personnel remuneration

Quantitative information on remuneration for the Bank's senior management and key personnel during the financial year of 2023, split into fixed and variable remuneration, is set out below:

Remuneration amount and quantitative information		Senior management	Key personnel
Fixed remuneration	Number of employees	11	12
	<b>Total fixed remuneration</b>	<b>41,801</b>	<b>23,189</b>
	Cash-based	41,801	23,189
	<i>Of which: deferred</i>	–	–
	Other forms	–	–
	<i>Of which: deferred</i>	–	–
Variable remuneration	Number of employees	10	12
	<b>Total variable remuneration</b>	<b>20,668</b>	<b>11,776</b>
	Cash-based	20,668	11,776
	<i>Of which: deferred</i>	10,275	4,670
	Other forms	–	–
	<i>Of which: deferred</i>	–	–
<b>Total remuneration</b>		<b>62,469</b>	<b>34,965</b>

Notes:

- (i) Remuneration refers to all remuneration payable to employees during the year when being appointed as senior management or key personnel under the Remuneration Policy.
- (ii) For the purpose of Remuneration Policy, "senior management" of the Bank includes the Chief Executive, Deputy Chief Executives and Division Chiefs of the Bank who report directly to Chief Executive and are responsible for the development and execution of Bank-wide strategy and/or activities and are collectively responsible for the risks that may arise. "Key personnel" refers to employees whose duties or activities in the course of the employment involve the assumption of material risks or the taking on of material exposures on behalf of the Bank.

## REGULATORY DISCLOSURES (UNAUDITED)

(All amounts in HK dollar thousands unless otherwise stated)

### 14 Disclosure on remuneration (Continued)

#### Senior management and key personnel remuneration (Continued)

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management	-	-	-	-	-	-
Key personnel	-	-	-	-	-	-

Deferred and retained remuneration in 2023	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustments	Total amount of amendment during the year of 2023 due to ex post explicit adjustments	Total amount of amendment during the year of 2023 due to ex post implicit adjustments	Total amount of deferred remuneration paid out in 2023
<b>Senior management</b>					
Cash	21,874	-	-	-	9,163
Other	-	-	-	-	-
<b>Key personnel</b>					
Cash	6,627	-	-	-	1,463
Other	-	-	-	-	-
<b>Total</b>	<b>28,501</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,626</b>

Notes:

- (i) The outstanding deferred remuneration in the financial year relates to the 2021, 2022 and 2023 variable remuneration.

## BRANCHES AND SUBSIDIARIES

### Management and Administration

Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong

Telephone: (852) 2818 0282

Fax: (852) 2810 4623

SWIFT: SCBK HK HH

Web Site: [www.shacombank.com.hk](http://www.shacombank.com.hk)

### Hong Kong Island Branches

Central Head Office

Lobby Floor, Shanghai Commercial Bank Tower,  
12 Queen's Road Central

Aberdeen Branch

118 Aberdeen Main Road, Aberdeen

Causeway Bay Branch

18 Pennington Street, Causeway Bay

Connaught Road Branch

G/F & 1/F Southland Building, 48 Connaught Road Central,  
Central

Hennessy Road Branch

Shop LG16, C. C. Wu Building, 302 Hennessy Road, Wanchai

North Point Branch

486 King's Road, North Point

President Theatre Branch

Shop A, G/F., 517 Jaffe Road, Causeway Bay

Shaukiwan Branch

136 Shaukiwan Main Street East, Shaukiwan

Sheung Wan Branch

G/F., 41-47 Jervois Street, Sheung Wan

Siu Sai Wan Branch

Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road, Chai Wan

Taikoo Shing Branch

G502 Tai Yue Avenue, Taikoo Shing, Quarry Bay

Victoria Centre Branch

G7 Victoria Centre, 15 Watson Road, Causeway Bay

Wanchai Branch

19-21 Hennessy Road, Wanchai

West Point Branch

Shop 2, G/F, 57-61 Belcher's Street, West Point

### Kowloon Branches

Jordan Road Branch

Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road, Jordan

Kowloon Bay Branch

Telford House, 16 Wang Hoi Road, Kowloon Bay

Kowloon Tong Branch

G28 Franki Centre, 320 Junction Road, Kowloon Tong

Kwun Tong Branch

57-61 Hong Ning Road, Kwun Tong

Laichikok Branch

Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road

Mei Foo Sun Chuen (Stage 1) Branch

29D Broadway, Mei Foo Sun Chuen, Laichikok

Mei Foo Sun Chuen (Stage 4) Branch

83B Broadway, Mei Foo Sun Chuen, Laichikok

Mody Road Branch

Units 101-103, 1/F., Wing On Plaza, 62 Mody Road,

Tsimshatsui East

Mongkok Branch

666 Nathan Road, Mongkok

## BRANCHES AND SUBSIDIARIES (CONTINUED)

### Kowloon Branches (Continued)

Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
Sanpokong Branch	28 Hong Keung Street, Sanpokong
Sham Shui Po Branch	141 Cheung Sha Wan Road, Sham Shui Po
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsimshatsui Branch	7 Hankow Road, Tsimshatsui
Tsimshatsui East Branch	G27 Houston Centre, 63 Mody Road, Tsimshatsui East
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom
Wong Tai Sin Branch	Shop N117, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin

### New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., +WOO Phase 2, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Sheung Shui Branch	82 San Fung Avenue, Sheung Shui
Tai Po Branch	Shop 4, G/F., Mee Tak Building, Nos. 27-31, 35-43 Kwong Fuk Road, Tai Po
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	405 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shops 1-3, G/F., Ming Wai Building, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun
Tung Chung Branch	Shops 1-2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road, Yuen Long

## BRANCHES AND SUBSIDIARIES (CONTINUED)

### Overseas Branches

London Branch	65 Cornhill, London, EC3V 3NB, U.K.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.

### Mainland Branches

Shanghai Branch	Room 913, China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.
Shanghai FTZ Sub-Branch	Room 03-05, 15/F, 55 Ji Long Rd, Pu Dong, Shanghai 200131, P.R.C.
Shenzhen Branch	Room 01-03, 20/F, Tower One, Kerry Plaza, No.1 Zhong Xin Si Road, Futian District, Shenzhen 518048, P.R.C.

### Wholly-owned Subsidiaries

Glory Step Westpoint Investments Limited  
Hai Kwang Property Management Company Limited  
Infinite Financial Solutions Limited  
KCC 23F Limited  
KCC 25F Limited  
KCC 26F Limited  
Right Honour Investments Limited  
Shacom Assets Investments Limited  
Shacom Futures Limited  
Shacom Insurance Brokers Limited  
Shacom Investment Limited  
Shacom Property (CA), Inc.  
Shacom Property (NY), Inc.  
Shacom Property Holdings (BVI) Limited  
Shacom Securities Limited  
Shanghai Commercial Bank (Nominees) Limited  
Silver Wisdom Westpoint Investments Limited

### Subsidiaries

Paofong Insurance Company (Hong Kong) Limited  
Shanghai Commercial Bank Trustee Limited