上海商業銀行
SHANGHAI COMMERCIAL BANK
Since 1950

ANNUAL REPORT 2025

傳承滬港 連繫國際
From Shanghai to Hong Kong, Connecting the World

Welcome to Shanghai Commercial Bank Limited's website

CONTENTS

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

*Note: The Bank's vision has been reviewed and revised to "To be a trusted, future-ready bank that drives innovation, while honoring our Chinese heritage, supporting international trade, and creating sustainable long-term value for our customers for generations to come", with effect from 1 March 2026.

CORPORATE PROFILE

Incorporated in Hong Kong in 1950, and recognized as one of the city's most distinguished local Chinese banks, Shanghai Commercial Bank (the "Bank") has built on its strengths in serving corporations, small-and-medium sized enterprises ("SMEs"), and high-net-worth individuals.

Tracing its roots to The Shanghai Commercial & Savings Bank founded by Mr. CHEN Kwang-pu in 1915 with "Serving the Community" as motto and "For Personalized Service" as principle, the Bank is dedicated to offer tailor-made products and services, including loans, deposits, trade finance, remittances, securities trading, wealth management, insurance, treasury, foreign exchange, credit cards, and digital banking solutions through an international network of approximately 50 branches and offices in Hong Kong, New York, San Francisco, Los Angeles, London, Shanghai and Shenzhen.

In 2000, the Bank formed a strategic alliance with Bank of Shanghai in Chinese Mainland and The Shanghai Commercial & Savings Bank in Taiwan, and collectively created the "Three Shanghai Banks, All Caring for You" (「三地上銀，一心為您」) branding, delivering one-stop banking services through a combined network of more than 400 outlets spanning China, Southeast Asia, the United Kingdom and the United States.

Over the years, the Bank has successfully developed a range of products and services to cater the needs for different segments.

- "SMART Banking" offers premier banking services and tailor-made wealth management solutions to our premium customers
- "Green Channel" leverages our tri-bank strategic alliance to provide customers with quality one-stop banking services and global business support
- "Shacom Bank" for personal banking customers to enjoy mobile banking services anytime, anywhere
- "Shacom Business" provides corporates with comprehensive mobile banking services to fully cater for their business needs
- "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 A3 by Moody's and BBB+ by Fitch.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy-Fifth 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, 22 April 2026 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 2025;
(2) To declare Dividend in respect of the year 2025 (if any);
(3) To re-elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31 December 2025;
(5) To re-appoint Auditor and to authorise the Directors to fix their remuneration;
(6) To adopt The Policy on the Acquisition and Disposal of Assets.

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, 15 April 2026 to Wednesday, 22 April 2026, both days inclusive.

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

Hong Kong, 21 January 2026

BOARD OF DIRECTORS

CHAIRMAN

Mr. Stephen Ching Yen LEE
  Non-executive Director

NON-EXECUTIVE DIRECTORS

Mr. John Con-sing YUNG
Mr. YE Jun
Mr. David Benjamin MARKS
Mr. Charles Chi Man MA

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Johnson Mou Daid CHA
Mr. Gordon Che Keung KWONG, *FCA*
Mr. E. Michael FUNG
Mr. Sunny Yiu Tong CHEUNG, *MH*
Ms. Alice Shing Mui LAW

MANAGEMENT

SENIOR EXECUTIVES

Deputy Chief Executives	Mr. Mong-ting CHONG Mr. Ryan Yuk-lung FUNG
Senior Management	Mr. Kim-man NGAN Ms. Wendy Li-chien WENG Mr. Christopher Lung-yuen YEONG Mr. Jerome Chee-keong GOH Ms. Feng TIAN Mr. Edmund Wing-fai LAI Ms. Eva Lai-ming LEUNG Ms. Jaffrey So-ching MA
Corporate Secretary	Ms. May Yuen-ling KWOK
Chief Auditor	Ms. Mandy Ming-wai CHAN

OVERSEAS BRANCHES

London Branch	Mr. Jerome Chee-keong GOH
Los Angeles Branch	Ms. Justina SETO
New York Branch	Mr. Joseph Nim-chi LAU
San Francisco Branch	Mr. Kai Hin TAN

MAINLAND BRANCHES

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

DIRECTORS

Mr. Stephen Ching Yen LEE

Aged 79. 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. Johnson Mou Daid CHA

Aged 74. 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 76. 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

Aged 69. 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 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. John Con-sing YUNG

Aged 57. Alternate Director of the Bank since March 2013 and appointed a Director of the Bank in May 2016. Vice Chairman and Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Taiwan. Chairman of Paofoong Insurance Company (Hong Kong) Ltd. and AMK Bank Plc. and Director of Nanyang Holdings Ltd.

Mr. Charles Chi Man MA

Aged 78. Appointed as a Director of the Bank in October 2019, Managing Director and Chief Executive of the Bank from July 2024 to January 2025, then re-designated as Executive Director in February 2025 and up to end of May 2025. 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

Aged 71. 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, and Sustainability Committee since August 2024. 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

Aged 53. 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.

Mr. David Benjamin MARKS

Aged 60. Appointed a Director of the Bank in January 2025. Executive Vice President of Commercial Bank, Wells Fargo & Company. A member of the Wells Fargo Management Committee and President of Wells Fargo Trust Company, N.A.

Ms. Alice Shing Mui LAW

Aged 61. Appointed a Director of the Bank in July 2025. Ms. Law is a solicitor admitted in Hong Kong and in England and Wales, and currently, an Adjunct Professor, Faculty of Law at The University of Hong Kong. A member of the education committee of Hong Kong Securities and Investment Institute. Ms. Law has served in the public sector for over 23 years between 1998–2021 and held various senior positions in the Mandatory Provident Fund Schemes Authority and the Securities and Futures Commission in the Hong Kong SAR. Former Co-chair of Global Future Council on Responsive Financial Systems of the World Economic Forum between 2020–2022 (June). Former Chief Executive Officer of Asia Securities Industry & Financial Markets Association between 2022–2023.

SENIOR EXECUTIVES

Mr. Mong-ting CHONG

Aged 63. Deputy Chief Executive, Chief of Corporate Banking Group. Joined the Bank in October 2015.

Mr. Ryan Yuk-lung FUNG

Aged 52. Deputy Chief Executive, Chief of Retail & Digital Strategy. Joined the Bank in May 2022.

Mr. Kim-Man NGAN

Aged 52. Chief of Treasury. Joined the Bank in May 2025.

Ms. Wendy Li-chien WENG

Aged 56. Chief Financial Controller. Joined the Bank in May 2012.

Mr. Christopher Lung-yuen YEONG

Aged 64. Chief Risk Officer. Rejoined the Bank in July 2025.

Mr. Jerome Chee-keong GOH

Aged 53. Manager of London Branch. Joined the Bank in November 2013.

Ms. Feng TIAN

Aged 51. Regional Head of US Branches. Joined the Bank in August 2018.

Mr. Edmund Wing-fai LAI

Aged 55. Chief of Information Technology. Joined the Bank in September 2024.

Ms. Eva Lai-ming LEUNG

Aged 52. Chief of Corporate Communications & Marketing. Joined the Bank in August 2025.

Ms. Jaffrey So-ching MA

Aged 52. Chief of Human Resources. Joined the Bank in October 2013.

Ms. May Yuen-ling KWOK

Aged 55. Corporate Secretary. Joined the Bank in March 1994.

Ms. Mandy Ming-wai CHAN

Aged 52. Chief Auditor. Joined the Bank in June 2000.

75th Anniversary
75周年誌慶

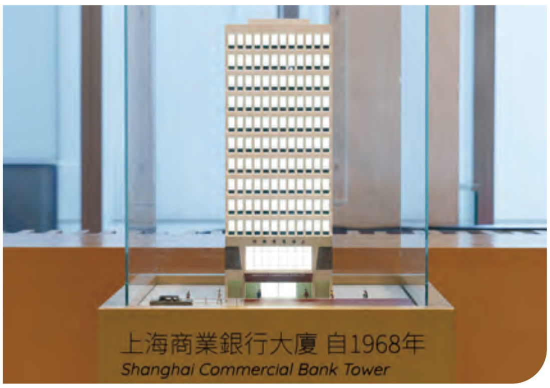
Marking 75 years since its incorporation in Hong Kong in 1950, the Bank celebrated this milestone with the theme "From Shanghai to Hong Kong, Connecting the World". Tracing its roots to The Shanghai Commercial & Savings Bank founded by Mr. CHEN Kwang-pu in 1915, making finance accessible to everyone and establishing a banking philosophy rooted in inclusion, innovation and service, we have expanded our geographical presence since establishing the strategic alliance with Bank of Shanghai in Chinese Mainland and The Shanghai Commercial & Savings Bank in Taiwan, combining a network covering over 400 international outlets, including China, Southeast Asia, the UK, and the US.

適逢上海商業銀行成立75週年，本行以「傳承滬港・連繫國際」為慶祝主題。上海商業銀行歷史可追溯至1915年由陳光甫先生創立的上海商業儲蓄銀行，秉承普惠金融理念，以共融、創新及服務為本的銀行精神，持續拓展業務版圖。自與中國內地的上海銀行及台灣的上海商業儲蓄銀行建立策略聯盟後，我們的國際網絡已覆蓋中國、東南亞、以至英美，超過400個據點。

75th Anniversary Celebration Kick-off Ceremony welcomed the attendance of government officials, valued customers, partners and media
75周年慶祝活動啟動禮邀請了政府官員、客户、合作伙伴及傳媒共襄盛舉

"From Shanghai to Hong Kong, Connecting the World" Exhibition featured a curated journey connecting our past to the present, as well as a glimpse into the future of banking through our interactive AI display. The exhibition marked the largest event hosted on premise since inception with attendance of over 1,200 guests.

「傳承滬港・連繫國際」展覽串聯起我們過去75年來的歷史旅程，並通過人工智慧互動展示，讓觀眾窺探銀行業的未來。展覽創下自成立以來在行內舉辦活動規模的最高紀錄，到場嘉賓人數逾1,200人。



Model of Shanghai Commercial Bank Tower established since 1968
上海商業銀行大廈自1968年模型

A replica of the Vault Door from the original Shanghai Ningbo Road Head Office in 1931
復刻1931年上海寧波路總行巨型金庫門裝置

2025 AT A GLANCE (CONTINUED)

Over 90 customers and partners supported our anniversary supplement on 6 major newspapers
超過90位客戶與合作夥伴支持我們於六大報紙的誌慶特刊

Enriched design at Central Headquarter with gigantic bunting and LED facade as well as new corporate video
總行大廈裝飾及全新企業宣傳片

Celebrating with staff in Hong Kong and other overseas branches
香港和海外分行同事共同慶祝

Head Office
總行

Shanghai Branch
上海分行

Shenzhen Branch
深圳分行

UK and US Branches
英美分行

75th Anniversary Dinner
75周年晚宴

Dance Performance
舞蹈表演

Best Dress Competition
最佳衣着比賽

Singing Performance
歌手獻唱

Digital and Sustainable Development
數碼及可持續發展

Our commitment to innovation, digital transformation, sustainability and unwavering support for SMEs has been recognized through prestigious industry awards.

本銀行憑藉在創新、數碼轉型、可持續發展及支援中小企服務等領域的卓越表現，屢獲業界的肯定及榮獲多項殊榮。

Asian Banking & Finance Retail Banking Awards 2025 – "Digital Transformation of the Year – Hong Kong" and "SME Digital Innovation of the Year – Hong Kong"
《亞洲銀行與金融》2025年大獎 –「年度香港最佳數碼轉型獎」及「年度香港最佳中小企數碼創新獎」
Asia Banking & Finance

AI Competition
AI競賽

Digital Innovation Award
數碼創新大獎

TVB ESG Awards 2025 – "Greater Bay Area ESG Excellence Enterprise Award"
TVB ESG大獎2025 –「大灣區ESG傑出企業大獎」
Television Broadcast Limited
電視廣播有限公司

ESG Leading Enterprise Award
ESG領先企業獎
The Hong Kong General Chamber of Small and Medium Business
香港中小型企業總商會

Corporate Brand Awards of Excellence 2025 – "Excellence in SME Banking Services Award"
企業品牌顯卓大獎2025 –「顯卓中小企銀行服務獎」
Hong Kong Economic Journal
信報財經新聞

2025 Wealth Management Awards – "Best SME Banking Service Award"
2025財富管理大獎 –「最佳中小企銀行服務」
HKET
香港經濟日報

2025 Best SME's Partner Gold Award
2025中小企最佳拍檔金獎
The Hong Kong General Chamber of Small and Medium Business
香港中小型企業總商會

科技領航 顧客為本 連繫國際

The 26th tripartite annual conference was held successfully in Shenzhen, China in November 2025. The strategic alliance with Bank of Shanghai in Chinese Mainland and The Shanghai Commercial & Savings Bank in Taiwan will continue to leverage our complementary strengths to offer comprehensive banking and financial services to customers.

第二十六屆滬港台三地「上海銀行」業務研討會已於2025年11月在中國深圳順利舉行。中國內地的上海銀行、台灣的上海商業儲蓄銀行和本銀行將繼續善用策略聯盟的優勢，為客戶提供全面的銀行及金融服務。

Staff Engagement
以人為本

We are committed to offering continuous learning and professional growth opportunities, cultivating a supportive and secure workplace, and empowering employees to excel and realize their full potential. Besides nurturing talent and growth, we remain committed to prioritizing employee well-being to support a healthy, sustainable work-life balance.

我們致力提供持續學習及專業發展機會，締造和諧安全的工作環境，令員工發揮所長。在助人才成長與發展的同時，我們致力於關注員工的福祉，宣導健康、可持續的工作生活平衡。

Best HR Awards 2025 – "Employer of the Year", "Best ESG Award", "Best Graduate and Management Trainee Programme Award"
Best HR Awards 2025 –「年度僱主」、「最佳環境、社會及管治大獎」、「最佳畢業生及管理培訓生招聘大獎」
CTgoodjobs

Graduate Trainee Program
畢業生實習計劃

Hai Kwang Club (Internal Staff Club)
海光俱樂部 (行內員工俱樂部)

Hai Kwang Club Award Presentation Ceremony
海光頒獎禮

Basketball competition
籃球比賽

Dragon Boat competition
龍舟比賽

Long Service Award
長期服務獎

20-Year Long Service Award
二十年長期服務獎

30-Year Long Service Award
三十年長期服務獎

40-Year Long Service Award
四十年長期服務獎

Corporate Social Responsibility
企業社會責任

With “Serving the Community” as motto, the Bank is committed to advancing corporate social responsibility through diverse environmental, youth and community care initiatives to support society and collectively build a more sustainable future for all. We also supported The University of Hong Kong, The Chinese University of Hong Kong, The Hong Kong University of Science and Technology, and City University of Hong Kong by providing scholarships to advance youth education.

除致力提供全面的銀行服務外，更積極履行企業社會責任，秉持「服務社會」的宗旨，透過多元化包括環境、青少年發展及社區關懷的活動，支援各階層，共建美好社會。我們亦透過獎學金支持香港大學、香港中文大學、香港科技大學及香港城市大學學生，以推動青年教育發展。

Shanghai Commercial • Pok Oi Cycle for Millions 2025
上海商業・博愛單車百萬行2025

Shanghai Commercial Bank x Silver Lining Foundation Charity Pickleball Tournament 2025
上海商業 x 雲彩行動慈善匹克球同樂日2025

UNICEF Charity Run
聯合國兒童基金會慈善跑

Yang Memorial Methodist Social Service – Tuen Ng Festival Elderly Visit
循道衛理楊震社會服務處 - 端陽暖萬心

Digital Rescue Team – 3C Products for Seniors
數碼拯救隊 - 長者3C應用義工服務

Caring for Elderly and Delivering Safety
長者安居協會 - 齊心護老送平安

MESSAGE TO SHAREHOLDERS

In 2025, the Hong Kong Government introduced a range of initiatives aimed at sustaining economic growth and fostering market resilience. Hong Kong's economy displayed moderate growth, with real Gross Domestic Product ("GDP") increased by 3.8% year-on-year, and the seasonally adjusted unemployment rate steadily stood at 3.8% for the last quarter of 2025. However, the overall business environment continued to experience heightened market volatility, escalated trade barriers and exacerbated geopolitical tensions.

The Bank recorded a year-on-year increase in operating income, driven by robust performance across retail, corporate, and SME segments. Consolidated profit after tax for the year ended 31 December 2025 reached HK$1,353 million, reflecting an improvement of 155% versus that of previous year. Net comprehensive income attributable to equity holders amounted to HK$2,780 million, up by 31% from HK$2,122 million in 2024. The improvement was largely supported by stronger asset quality and prudent risk management.

Our capital and liquidity positions remained robust. The total capital adequacy ratio and Common Equity Tier 1 (CET1) ratio strengthened to 30.4% and 27.3%, respectively at year-end 2025. The average Liquidity Maintenance Ratio (LMR) for 2025 was 79.7 %, underscoring our disciplined liquidity management.

Business Strategies

As a trusted bank in Hong Kong, the Bank has a strong heritage of serving society, supporting business and fostering international trade. In 2025, we shined at the Asian Banking & Finance Retail Banking Awards 2025 with "Digital Transformation of the Year – Hong Kong" and "SME digital Innovation of the Year – Hong Kong" as well as the HKET Wealth Management Awards 2025 with "Best SME Banking Service Award", celebrating our enduring commitment to supporting SMEs and our dedication to innovative digital services and relationship-based banking.

The Bank collaborates closely with the Hong Kong Monetary Authority ("HKMA") and industry partners to shape a smarter, more connected finance future. We were thrilled to participate in the HKMA Expert Panel on Project CargoX at the Data Summit 2025 co-organized by HKMA and the Hong Kong Association of Banks. Our "AI Knowledge Hub for Relationship Manager (RM) with Multi-Agents" was selected for the second cohort of the HKMA-Cyberport GenA.I. Sandbox, reinforcing our use of artificial intelligence technology to enhance customer service excellence.

We are devoted to strengthening our tri-bank strategic collaboration with Bank of Shanghai in Chinese Mainland and The Shanghai Commercial & Savings Bank, Ltd. in Taiwan, leveraging respective complementary strengths to deliver comprehensive cross-strait banking and financial services to customers. We continue to deepen collaboration in green banking, sustainability, innovative finance and Fintech solutions.

The Bank will continue to invest in the latest technologies to capture digital opportunities and support Fintech development, also explore green business opportunities through our ESG and Green and Sustainable Banking ("GSB") initiatives. We have established clear principles and robust controls for financing activities that guard against greenwashing, enabling informed decision-making in GSB and facilitating efficient flow of finance to sustainable projects.

Robust risk management is the Bank's top priority. We have strengthened our overall risk controls across domains, with a focus on enhancing our credit risk models and diversification of our loan portfolio. We swiftly addressed emerging challenges and preserved our credit asset quality through stringent credit review standards and continuous monitoring. Our risk management framework safeguards the Bank's resilience against disruptions, enabling us to navigate the dynamic operating environment with confidence. Committed to combating financial fraud and crime, we launched an enhanced public outreach campaign to protect customers' information, and upgraded our fraud detection capabilities. The Bank received Anti-Money Laundering Excellence Award, Effective Publicity and Education Award from the 2025 Bank Staff Recognition Ceremony held by The Hong Kong Police Force in recognition of banks which assisted Police in the prevention and proactive detection of deception cases, while one of our staff members received a Spotlight Award due to quick identification of suspicious activity with professionalism.

Sustainability and Social Responsibility

Through integrating sustainability and implementing the Bank's Decarbonization Plan into our daily operations, corporate culture, and strategic planning, we continue to pursue our vision: "To be a trusted, future-ready bank that drives innovation, while honoring our Chinese heritage, supporting international trade, and creating sustainable long-term value for our customers for generations to come".

Our sustainability efforts echo and align with the HKMA's initiatives to foster green and sustainable finance, and we are striving to achieve net-zero in the Bank's operations and financed emissions. In 2025, the Bank was honored with the "ESG Leading Enterprises Award" from the Hong Kong General Chamber of Small and Medium Business for the third consecutive year, and also received the "Greater Bay Area ESG Excellence Enterprise Award" presented by TVB ESG Awards 2025, which recognized our efforts in green finance and sustainable development.

The Bank remains committed to serving the communities where we operate and live, and has continued to devote substantial resources to socially-minded programs focused on the environment, youth development, and community care. We continue strongly encouraging our staff to participate in charitable activities and volunteer work, and we applaud their contributions to society as part of our mission to create a more sustainable future.

Bank Culture

In 2025, the Bank intensified its focus on strengthening risk-management capabilities, particularly in credit risk among frontline and credit staff. Structured training programs were rolled out, covering enhanced credit analysis, credit assessment, and regulatory insights. In line with the Banking Industry Integrity Charter advocated by the Independent Commission Against Corruption of Hong Kong, the Bank promoted business conducted with integrity and committed to timely and regular staff training to reinforce our core values of Integrity and Professionalism. The expectation of customer-centric behaviors was effectively promulgated through town-hall meetings, thematic service-excellence campaigns, recognition initiatives, and management keynote messages.

Looking Ahead

To celebrate our remarkable 75-year journey, the Bank launched a series of initiatives to showcase our historical milestones and highlight our core values while looking forward to the future. We are set to unveil the 2026–2030 Five-Year Plan, prioritizing digital innovation, ESG integration, risk resilience and Greater Bay Area development. Accelerating the rollout of AI-powered analytics and fintech partnerships enhances customer experience, while expanding the green-banking portfolio and committing to net-zero operations strengthen our sustainability roadmap. Adopting a hybrid servicing approach, the Bank maintains the provision of customer-centric and comprehensive one-stop banking solutions for corporates and SMEs. We continue to deliver value for shareholders while upholding robust regulatory compliance and governance standards.

On behalf of the Board, we would like to extend a warm welcome to Ms. Alice Shing Mui Law, a seasoned legal and financial regulatory professional for over 30 years, who was appointed as an Independent Non-Executive Director of the Board on 16 July 2025. Mr. Wallace Wing-ted Lam has tendered his resignation as Chief Executive of the Bank on 3 February 2026. The Board expresses its sincere appreciation to Mr. Lam for his contributions and dedicated service to the Bank, and extends its best wishes for his future endeavors.

We remain deeply appreciative of the unwavering support of our shareholders, and of our customers' trust and confidence in the Bank. A heartfelt thank you goes to our staff for their dedication and valuable contributions.

Stephen Ching Yen LEE
Chairman

Hong Kong, 25 February 2026

FINANCIAL HIGHLIGHTS

The highlights of the Group's consolidated financial performance for the year are summarized in the table below:

	2025	2024
HK$ million		
Profit for the year	1,353	531
Net interest income	4,332	4,402
Net fee and commission income	793	631
Other non-interest income	1,046	719
Operating expenses	2,247	1,919
Credit impairment losses	2,795	3,123
Net comprehensive income attributable to equity holders	2,780	2,122
Gross loans and advances to customers	68,791	76,684
Deposits from customers	175,133	177,425
Net interest margin	2.00%	2.03%
Cost to income ratio	35.5%	33.4%
Loan to deposit ratio	39.3%	43.2%
Impaired loan ratio	5.76%	4.79%
Return on average assets	0.6%	0.2%
Return on average equity	3.4%	1.4%
Capital adequacy ratio	30.4%	28.0%
Common equity Tier 1 capital ratio	27.3%	25.1%
Average liquidity maintenance ratio	79.7%	82.1%

FINANCIAL REVIEW

For the year ended 31 December 2025, consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together the "Group") was HK$1,353 million, an increase of HK$822 million or 155% from that of 2024.

FINANCIAL REVIEW (Continued)

Despite a challenging macroeconomic environment, including contractions in interest rates, elevated geopolitical tensions, trade barriers and a fragile property market that continued to affect our lending operations in our key markets of Hong Kong and the United States of America, the Bank delivered a strong set of results for the year. Net interest income remained resilient at HK$4,332 million despite rate reductions, while growth in current and savings account (CASA) balances lowered funding costs and partially offset declines in loan volumes. Fee and commission income for 2025 rose to HK$793 million, up HK$162 million or 26% year-on-year, driven by retail and wealth management fees, securities trading and insurance commissions. Other non-interest income increased 46% to HK$1,046 million (2024: HK$719 million), underscoring continued revenue diversification as trading and customer-driven treasury businesses expanded.

We maintained disciplined balance-sheet management, with a particular focus on controlling deposits interest expense and deploying our assets in better risk-adjusted yield instruments. This was achieved by raising the CASA ratio by 2.6% year-on-year and strategically reallocating longer-term money-market and bond portfolios to capture higher returns, while proactively locking in asset yields ahead of expected rate declines. As a result, both net interest income and net interest margin remained broadly stable year-on-year at HK$4,332 million and 2.0%, respectively, despite three rounds of rate cuts by the U.S. Federal Reserve and periods of exceptionally low HIBOR in 2025. Our measured execution reduced the sensitivity of earnings to interest-rate movements and helped stabilize net interest income.

Net fee and other non-interest income were among the key drivers of the Group's profitability, delivering robust year-on-year growth across key business lines: securities (+47%), wealth management (+55%), and life insurance (+76%), primarily driven by elevated customer activity in favorable market conditions. Income from customer-related foreign exchange also increased by 9%.

The Group completed the West Point redevelopment and commenced handover of the sold residential units in January 2025. For the year ended 31 December 2025, the Group recognized aggregate net gains of HK$350 million from the sale of 130 units. Separately, in 2024 the Bank entered into an agreement with Yue Xiu Enterprises (Holdings) Limited to sell its interest in Hong Kong Life Insurance Limited for HK$295 million; the disposal completed on 9 October 2025, and the Bank recognized a gain on disposal of HK$163 million.

The Group's operating expenses rose to HK$2,247 million (2024: HK$1,919 million) due to targeted investments in technology, talent, and credit systems. Although the cost-to-income ratio increased slightly to 35.5%, it remains well within competitive industry norms and serves to strengthen the Bank's operational resilience for long-term sustainable growth.

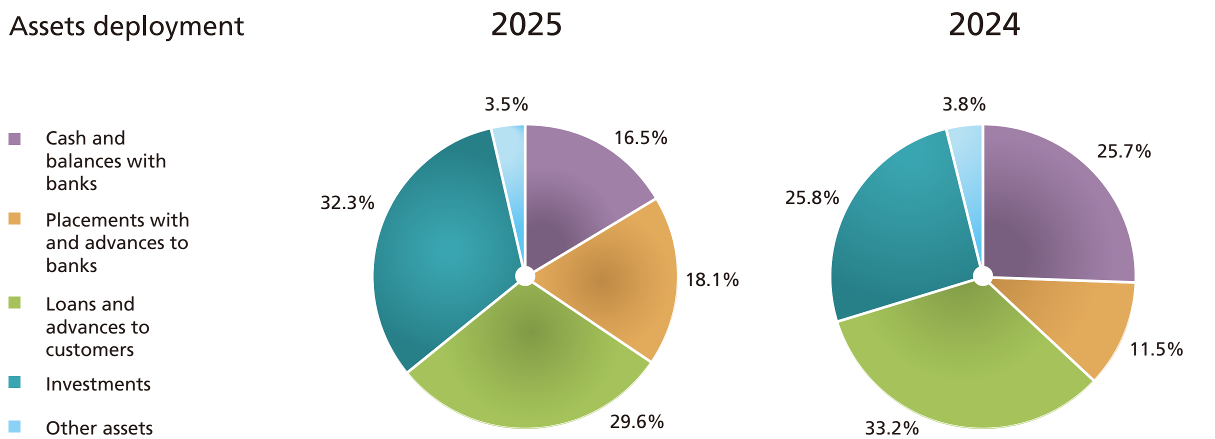
We tightened our credit underwriting standards during the year and took proactive measures including targeted loan sales to ensure associated costs were recognized in our books. These actions, together with ongoing portfolio reviews, contributed to a reduction in credit impairment charges to HK$2,795 million for the year, compared with HK$3,123 million in the prior year.

The Bank's financial position remained resilient, supported by a strong capital base and ample liquidity. At year-end, the total capital adequacy ratio was 30.4% and the Common Equity Tier 1 (CET1) ratio was 27.3%. The average liquidity maintenance ratio for the year was 79.7%.

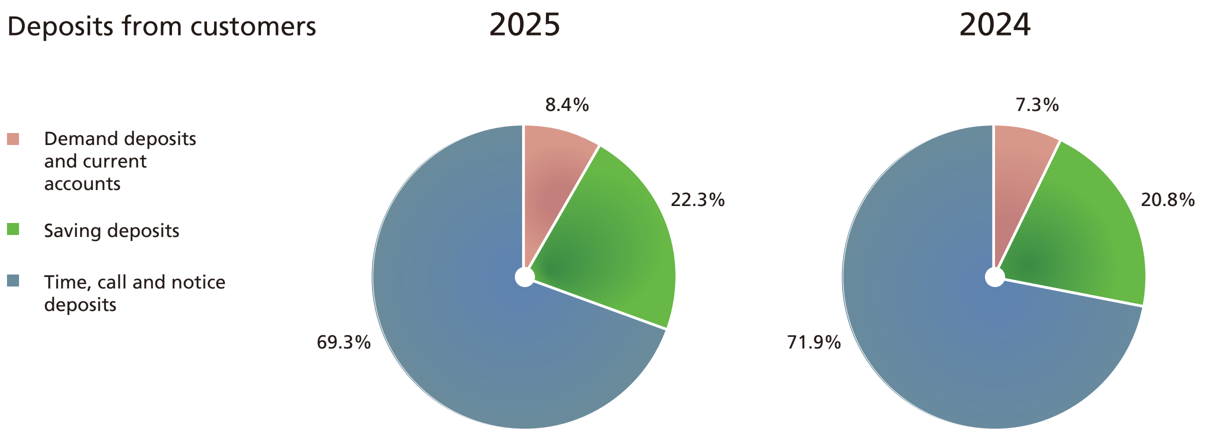
For the year ended 31 December 2025, net comprehensive income attributable to equity holders amounted to HK$2,780 million, compared with HK$2,122 million in the prior year. The increase was primarily driven by higher net profit for the year.

FINANCIAL REVIEW (Continued)

The Group continued to employ an active balance-sheet management strategy across its loans and deposits portfolios, both locally and overseas. As at 31 December 2025, total gross loans and advances to customers were HK$68.8 billion, down HK$7.9 billion or 10.3% from HK$76.7 billion at the end of the prior year, reflecting deliberate actions to manage sector concentration. On the back of a reduced loan book and slower collateral realizations in a weak property market, the Group's impaired loan ratio increased to 5.76% at 31 December 2025 (2024: 4.79%), as certain borrowers delayed repayments and required more time for asset or collateral realization.



Customer deposits totaled HK$175.1 billion at year-end, down HK$2.3 billion or 1.3% from HK$177.4 billion at 31 December 2024, resulting in a loan-to-deposit ratio of 39.3% (2024: 43.2%). Total assets amounted to HK$227.5 billion at the end of 2025, an increase of HK$73 million from the prior year.



HIGHLIGHTS OF BUSINESS PERFORMANCE

Corporate Banking and Trade Finance

The past year presented a complex operating landscape for our Corporate and Commercial Banking business. Our portfolio experienced a measured slowdown driven by conscious efforts to de-risk our exposures and reduce sector concentrations. This was compounded by structural external headwinds, including sluggish loan demand across the market, geopolitical tensions, and tariff barriers that disrupted key export markets, cross-border transactions, and regional trade flows. In response, we maintained a disciplined approach, prioritizing portfolio quality and strengthening client relationships.

Looking ahead, the Group is focused on transforming these challenges into opportunities for sustainable growth. Our strategy is anchored in deepening client relationships and strengthening our collaborative capabilities through our tri-bank alliance, together with The Shanghai Commercial & Savings Bank, and Bank of Shanghai, enabling us to deliver seamless cross-border solutions across key markets. We aim to achieve stable development of our asset business while actively growing non-interest income through diversified financial solutions, including transaction banking, treasury services, and corporate advisory. We remain committed to prudent risk management, proactively and dynamically managing our portfolio to ensure diversification across sectors and geographies. Strategic investments are being directed towards strengthening our transaction banking capabilities. Throughout this transformation, we remain dedicated to small and medium enterprises – our core segment – providing tailored support to these vital drivers of the economy.

Retail Banking

In 2025, amid buoyant market conditions, our retail fee-based businesses achieved exceptional growth, with securities, investment, and life insurance segments each recording over 50% year-on-year increases. This strong performance reflects robust client demand in a recovering environment. The rebound in Hong Kong's property market, marked by rising transaction volumes, a four-year high in sales, and renewed buyer interest (particularly from Chinese Mainland), drove healthy growth in retail lending, especially residential mortgages. We also strengthened our deposits profile, with CASA balances increasing by 8%, highlighting successful efforts in cost management and liquidity optimization.

Looking ahead, we will continue to leverage the favorable market environment and the resilient retail fee streams to deepen client relationships. By refining our product suite and enhancing digital platform, service delivery and customer experience, we aim to sustain momentum in wealth and investment management. In doing so, we will strive to deliver a seamless banking experience to our customers to empower families to preserve and transfer wealth across generations.

Treasury

In 2025, amid persistent geopolitical tensions, escalating trade frictions (particularly U.S.-China dynamics), excitement around AI-driven growth, valuation concerns, and lingering inflation uncertainties, global markets experienced heightened volatility and fluctuating interest rates.

The Group demonstrated strong resilience and strategic positioning in this environment. Our expertise in currency movements particularly across key Asian currencies, drove robust foreign exchange-related income, marking the fourth consecutive year of strong performance in this area. Looking ahead, we will continue expanding our treasury product suite to better support clients' investment, hedging, and risk management needs in an evolving landscape.

HIGHLIGHTS OF BUSINESS PERFORMANCE (Continued)

Treasury (Continued)

To capitalize on attractive opportunities while maintaining prudent risk management, the Board approved an increase in the size of the bond investment portfolio. This expansion focuses on yield enhancement and diversification, with liquidity preservation and high credit quality remaining paramount criteria for treasury asset management. Key achievements in the portfolio included reinvesting in maturing bonds with higher yields and sound credit profiles, contributing to improved overall returns, new investments primarily in high-quality debt securities issued by banks, sovereigns, quasi-government organizations, and supranational institutions, strategic diversification into global corporate bonds from issuers with very strong credit ratings, as well as sovereign securities denominated in regional currencies with funding swaps employed to fully hedge foreign exchange risks while capturing yield uplift.

In a significant milestone, the Bank secured approval from relevant authorities to gain access to the Northbound Bond Connect, enabling enhanced participation in the Chinese Mainland interbank bond market. This development, building on ongoing enhancements to Bond Connect (including repo arrangements and collateral usage introduced in early 2025), strengthens our ability to access onshore opportunities, deepen RMB-related activities, and support clients in navigating cross-border fixed income investments. These proactive measures reflect the Group's disciplined approach to treasury management: balancing yield optimization, risk mitigation, and diversification to deliver sustainable value in a complex global environment.

Chinese Mainland Branches

The Bank's operations in Chinese Mainland benefit from our tri-bank alliance with The Shanghai Commercial & Savings Bank, and Bank of Shanghai. This strategic partnership enables collaborative lending opportunities, enhances risk-sharing capabilities, and leverages the combined expertise and regional strengths of all three institutions to serve our clients' cross-border banking needs.

Chinese Mainland operations will focus on prudent growth in 2026, with new lending primarily through syndicated loans and tri-bank club deals. Asset quality monitoring remains the top priority, with comprehensive oversight to maintain portfolio health and stability.

Overseas Branches

The U.S. branches adopted a highly conservative stance in 2025, proactively addressing elevated commercial real estate (CRE) concentration risk amid challenging market conditions including office oversupply, declining rents, and rising sector-wide impairments. New CRE lending was strictly limited to core group-level relationships and select tri-bank alliance deals. This disciplined approach enabled active portfolio diversification into lower-risk, higher-potential segments including renewables, trade finance, corporate term lending, and syndicated loans. Strategic priorities for 2026 include strengthening governance and risk frameworks, restoring balance sheet resilience, diversifying fee-based revenue streams, and enhancing product offerings to meet evolving client needs.

HIGHLIGHTS OF BUSINESS PERFORMANCE (Continued)

Overseas Branches (Continued)

U.K. operations maintained stable performance in 2025, prioritizing lending to long-standing clients with sound fundamentals and collateral support, while selectively diversifying into new industries with strong credit profiles and resilient business models. The branch successfully resolved a long-standing non-performing loan in December 2025 and continued rebalancing the portfolio toward broader industry diversification to reduce risk concentration.

LOS ANGELES BRANCH

383 East Valley Boulevard,
Alhambra

NEW YORK BRANCH

125 East 56th Street,
New York

SAN FRANCISCO BRANCH

231 Sansome Street,
San Francisco

LONDON BRANCH

65 Cornhill,
London

SHANGHAI BRANCH

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

SHENZHEN BRANCH

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

DIGITAL TRANSFORMATION

In 2025, the Bank solidified its leadership in financial innovation through strategic investments in technology, data partnerships, and cutting-edge pilots that delivered measurable impact.

A major highlight was our prominent showcase at the HKMA Data Summit in July 2025, where we demonstrated a groundbreaking pilot in collaboration with the Airport Authority Hong Kong (and aligned with initiatives like Project CargoX). By integrating real-time cargo data from the HKIA Cargo Data Platform into a secure framework, we enabled pre-authorized payments triggered by verified deliveries. This innovative solution combines trade, logistics, and operational data to dramatically reduce uncertainty, minimize cross-border trade disputes, and empower SMEs with faster, more reliable access to financing for sustainable growth.

Building on this success, we advanced our innovation agenda through active participation in the HKMA and Cyberport sandbox programs.

DIGITAL TRANSFORMATION (Continued)

In May 2025, admission to the Fintech Supervisory Sandbox 3.1 allowed us to develop an AI-powered model that streamlines Corporate Facilities Proposal preparation, slashing processing times while enhancing efficiency. The AI-driven approach is also transforming our risk management functions, including optimizing transaction monitoring systems to minimize false-positive alerts.

In October 2025, we joined the Generative Artificial Intelligence (Gen A.I.) Sandbox, where we are creating a cutting-edge AI Knowledge Hub designed to transform customer experience and service. These initiatives demonstrate our commitment to harnessing advanced technology to drive tangible and scalable value.

Together, these interconnected achievements reflect our core strategy: leveraging advanced technologies to address real-world business challenges and create scalable value. Looking forward, we will accelerate AI adoption, build on our established momentum, and continue driving a more efficient, resilient, and customer-centric financial ecosystem in Hong Kong and beyond.

RISK MANAGEMENT

Hong Kong's economic environment remains challenging, with ongoing pressure on the commercial property market due to weak corporate demand and declining valuations, while the residential sector shows tentative stabilization but stays exposed to downside risks. Although market interest rates have moderated following U.S. policy adjustments, the banking sector continues to face headwinds, including elevated credit deterioration risks.

In response, the Bank has adopted a cautiously proactive credit risk management approach. It has strengthened underwriting standards and approval processes, intensified monitoring of at-risk accounts, and implemented early intervention measures to prevent downgrades to non-performing or impaired status. At the same time, the Bank is selectively pursuing growth opportunities by diversifying its loan portfolio across sectors and reputable corporate clients, while prioritizing improvements in risk identification, early warning systems, and overall credit quality to further reduce non-performing loans.

The Bank remains fully committed to its "three lines of defense" risk governance framework, with clearly defined roles, regularly reviewed key risk indicators, alert levels, and limits to ensure effectiveness amid economic and regulatory pressures. This balanced approach supports resilient portfolio growth while maintaining rigorous risk controls.

Technology plays a central role in risk transformation. The Bank has upgraded its AI-powered fraud detection system for centralized, real-time monitoring across digital channels. It has also established robust governance for AI and cloud computing adoption, including formal risk assessments to mitigate associated threats and meet regulatory standards. Concurrently, enhanced cyber and information security measures, supported by staff training and simulation drills help strengthen defenses during ongoing digital transformation.

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 2025.

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 23 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 2025, 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 2025 (if any)	• Review of Operations
2. An indication of likely future development in the business of the Group	• Message to Shareholders • Review of Operations
3. Description of the principal risks and uncertainties facing the Group	• Message to Shareholders • Review of Operations • Note 3 to the Consolidated Financial Statements
4. A discussion on the Group’s environmental policy and performance*	• Message to Shareholders
5. Compliance with relevant laws and regulations which have a significant impact on the Group*	• Corporate Governance Report
6. Relationships with the key stakeholders that have a significant impact on the Group*	• Message to Shareholders • Review of Operations • Corporate Governance Report

* Further discussions on this topic are set out in the Bank’s 2025 Sustainability Report to be made available on the Bank’s website by April 2026.

Results and appropriations

The profits of the Group for the year ended 31 December 2025 are set out in the consolidated statement of profit or loss on page 57 of this Annual Report.

No payment of a final dividend was recommended by the Board for the year ended 31 December 2025 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, 22 April 2026.

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

As at 31 December 2025, the Bank had a tranche of the Tier-2 subordinated 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 2025, 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$14,840,000 (2024: HK$13,603,000).

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

Non-executive Directors

Mr. JIN Yu[1]
Mr. John Con-sing YUNG
Ms. Maria Pui Man KIANG[2]
Mr. YE Jun
Mr. David Benjamin MARKS[3]
Mr. Charles Chi Man MA[4]

Independent Non-executive Directors

Mr. Johnson Mou Daid CHA
Mr. Gordon Che Keung KWONG
Mr. E. Michael FUNG
Mr. Sunny Yiu Tong CHEUNG
Ms. Alice Shing Mui LAW[5]

1 The term of directorship of Mr. JIN Yu ended at the conclusion of the Seventy-Fourth Annual General Meeting of the Bank held on 23 April 2025.

2 Ms. Maria Pui Man KIANG resigned as a Non-executive Director on 21 January 2025 and confirmed that she had no disagreement with the Board and there were no matters in relation to the affairs to the Bank that needed to be brought to the attention of the shareholders of the Bank.

3 Mr. David Benjamin MARKS was appointed as a Non-executive Director on 21 January 2025.

4 Mr. Charles Chi Man MA was re-designated from an Executive Director to a Non-executive Director on 1 June 2025.

5 Ms. Alice Shing Mui LAW was appointed as an Independent non-executive Director on 16 July 2025.

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

In accordance with Article 95 of the Bank's Articles of Association, Ms. Alice Shing Mui LAW shall retire at the forthcoming Annual General Meeting and is eligible to offer herself for re-election.

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, CHONG Mong Ting, Ryan Yuk Lung FUNG, TIAN Feng, Jerome Chee-keong GOH, Eric Wing-hong KO, Wendy Li-chien WENG, Annie Pak-yan WONG, Philip Wing-cheong WONG, William Wai-leung WONG, YEUNG Chi Kong, Michael Yiu-wing FUNG, Richard James ANN, Edmund Wing-fai LAI, Tony Wai-man WAN, Kelvin Kar-man CHENG, Joseph Nim-chi LAU, Philip She-hoi LEE, Angus Ping-chung CHOI[1], Patrick Shing Chi WONG[2], Joey Ho Man LAU[3], KOK Chi Ho[4], Zachary Wing-kwong KWAN[5], Sammy Tak-keung WONG[6], LI Yiu Ki[7], Sharon Kam-wing WONG[8], Tony Sik Yuen CHAN[9]

1 Appointed as a director of the relevant subsidiary of the Bank with effect from 8 January 2025.

2 Appointed as a director of the relevant subsidiary of the Bank with effect from 23 January 2025.

3 Appointed as a director of the relevant subsidiaries of the Bank with effect from 15 May 2025.

4 Appointed as a director of the relevant subsidiary of the Bank with effect from 10 July 2025.

5 Ceased to be a director of the relevant subsidiary of the Bank on 8 January 2025.

6 Ceased to be a director of the relevant subsidiary of the Bank on 23 January 2025.

7 Ceased to be a director of the relevant subsidiary of the Bank on 9 April 2025.

8 Ceased to be a director of the relevant subsidiaries of the Bank on 15 May 2025.

9 Acted as a director of the relevant subsidiary of the Bank from 9 April 2025 up to 10 July 2025.

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.

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, 25 February 2026

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 2025, 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 six 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, Sustainability Committee and Five-year Plan Steering 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 is responsible for implementing the decisions, strategies and policies as established by the Board, and also for leading the Senior Management in running the day-to-day business and operations of the Bank as well as chairing the Executive Committee. Following the resignation of Mr. Wallace Wing-ted LAM on 3 February 2026, Mr. Mong-ting CHONG, Deputy Chief Executive, Chief of Corporate Banking Group, assumed the authority and responsibilities of Chief Executive on the same day.

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 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 (i) resignation of Ms. Maria Pui Man KIANG as a NED on 21 January 2025, (ii) appointment of Mr. David Benjamin MARKS as a NED effective 21 January 2025, (iii) expiration of term of directorship of Mr. JIN Yu at the conclusion of the Seventy-fourth Annual General Meeting held on 23 April 2025, (iv) re-designation of Mr. Charles Chi Man MA from an ED to NED on 1 June 2025, and (v) appointment of Ms. Alice Shing Mui LAW as an additional INED effective 16 July 2025, the Board comprised ten Directors as at the date of this report, including five NEDs 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 their 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 judgment.

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) 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 pursuant to the Nomination Procedures of the Bank, mainly based on merits but also having due regard to the benefits of Board diversity and the individuals' time commitment to the role and any potential conflicts of interests identified, 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 NEDs (including INEDs), except that Ms. Alice Shing Mui LAW was appointed pursuant to an appointment letter with an initial term of appointment until the next following annual general meeting of the Bank. However, the AoA stipulates that at each annual general meeting, a minimum of one-third of the Directors for the time being, 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.

Effective from 2026, all new Directors appointed by the Board and all retiring Directors re-elected by shareholders at the annual general meetings of the Bank, with the exception of Executive Directors subject to employment with the Bank, shall be appointed pursuant to formal letters of appointment setting out the key terms and conditions of their appointment.

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:

Categories	Key items
Financial Oversight	• 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.
Strategy	• to formulate the Five-year Plan 2026–2030 of the Bank and oversee the implementation
Corporate Governance	• amendments to the Articles of Association of the Bank • report on board performance evaluation • 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
Members of the Board and Senior Management	• proposal for re-election of Directors • appointment of new Directors • appointment and oversight of senior management, including Chief Executive of the Bank, assessment of management competence, and succession plans for Chief Executive and senior management
Risk Management	• half-yearly summary report on stress tests • quarterly review of large credit exposures and risk concentrations, and review of the updates from the management action plan to mitigate the risks of loan portfolio of the Bank as well as to enhance the credit risk management of the Bank, and to address regulator's concerns • review of significant policies and plans • 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
Culture	• updates on Bank culture reform and its implementation progress

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.

Directors' Attendance Records

The attendance records of general meetings, Board and Board Committee meetings held during the year ended 31 December 2025 are as follows:

		Number of meetings attended/held in 2025					
Directors	General Meeting	Board	Executive Committee	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Sustainability Committee
Non-executive Directors							
Mr. Stephen Ching Yen LEE	2/2	6/6(C)	–	–	6/6	–	–
Mr. JIN Yu[(1)]	1/1	1/1	–	–	–	–	–
Mr. John Con-sing YUNG	2/2	6/6	14/14	4/4	–	–	2/2
Ms. Maria Pui Man KIANG[(2)]	1/1	–	–	–	–	–	–
Mr. YE Jun	2/2	6/6	14/14	–	–	–	–
Mr. David Benjamin MARKS[(3)]	1/1	6/6	–	–	–	–	–
Mr. Charles Chi Man MA[(4)]	2/2	6/6	14/14	–	–	–	–
Independent Non-executive Directors							
Mr. Johnson Mou Daid CHA	2/2	6/6	–	–	6/6(C)	4/4	–
Mr. Gordon Che Keung KWONG	2/2	6/6	–	4/4(C)	6/6	3/4	–
Mr. E. Michael FUNG	2/2	6/6	–	4/4	–	4/4(C)	–
Mr. Sunny Yiu-tong CHEUNG[(5)]	2/2	6/6	4/4	–	–	–	2/2(C)
Ms. Alice Shing Mui LAW[(6)]	–	4/4	–	–	3/3	–	1/1

Notes:

1. The term of directorship of Mr. JIN Yu ended at the conclusion of the Seventy-Fourth Annual General Meeting held on 23 April 2025.
2. Ms. Maria Pui Man KIANG resigned as a Non-executive Director on 21 January 2025.
3. Mr. David Benjamin MARKS was appointed as a Non-Executive Director on 21 January 2025.
4. Mr. Charles Chi Man MA ceased to act as a member of the Sustainability Committee and the Chairman of the Executive Committee effective 1 February 2025, while remained as a member of the Executive Committee, and was subsequently re-designated from an Executive Director to a Non-executive Director on 1 June 2025.
5. Mr. Sunny Yiu-tong CHEUNG ceased to act as the member of the Executive Committee on 1 April 2025.
6. Ms. Alice Shing Mui LAW was appointed as an Independent Non-Executive Director and a member of each of the Nomination and Remuneration Committee and Sustainability Committee on 16 July 2025.
7. Chairmen of the Board and Board Committees are indicated by (C) respectively.

Board Effectiveness

During the year ended 31 December 2025, the Bank conducted an internal review in the form of Board performance evaluation questionnaire, covering (1) Board composition and skills; (2) Strategic orientation and risk management; (3) Board Committee's 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, (9) Director's self-evaluation, and an exclusive section for the completion by INEDs only for the assessment of their ongoing suitability.

The overall feedback was positive and the Directors were of the view that meaningful participation, open discussions and critical debates were encouraged and welcomed among Board members, and the overall performance of the Board and Board Committees remained effective and satisfactory. All Directors responded their willingness and ability to commit sufficient time, attention and efforts to fulfill their responsibilities. All five INEDs exercised stringent monitoring and independent judgment over the business and affairs of the Bank, and they made reasoned and critical challenges to scrutinize the Bank's performance.

The review also included 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 evolving banking industry as well as directives for Management team in achieving the Bank's strategic goals.

The review results and the corresponding follow-up actions had been reviewed by the Nomination and Remuneration Committee and presented to the Board in January 2026.

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, as well as environmental, social and governance ("ESG"), FinTech, changes in accounting standards, and etc.

Directors are also informed of and encouraged to attend outside talks, blended 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 2025, 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 2025[1] Regulatory updates[2]	Corporate Governance & ESG[3]	Digital & Technology[4]	Risk Management and Internal Controls[5]	Others[6]	No. of hours of training received in 2025
Non-executive Directors						
Mr. Stephen Ching Yen LEE	✔	✔	✔	✔	✔	28
Mr. John Con-sing YUNG	✔	✔	✔	✔	✔	31
Mr. YE JUN	✔	✔	✔	✔	✔	22
Mr. David Benjamin MARKS^	✔	✔	✔	✔	✔	34
Mr. Charles Chi Man MA	✔	✔	✔	✔	✔	26
Independent Non-executive Directors						
Mr. Johnson Mou Daid CHA	✔	✔	✔	✔	✔	99
Mr. Gordon Che Keung KWONG	✔	✔	✔	✔	✔	26
Mr. E. Michael FUNG	✔	✔	✔	✔	✔	83
Mr. Sunny Yiu-tong CHEUNG	✔	✔	✔	✔	✔	104
Ms. Alice Shing Mui LAW*	✔	✔	✔	✔	✔	54

1. The training received by the Directors of the Bank during 2025 included but not limited to internal training provided by the Bank as well as outside talks, blended trainings and seminars organized by professional bodies, and the Directors participated in these training activities by attending in-person, virtual/hybrid conference, self-learning, etc.
2. The Directors received trainings and readings on topics such as revised Supervisory Policy Manual during 2025.
3. The Directors received trainings and readings on topics such as "Adoption Practice Guide on Greentech in the Banking Sector", "Phase 2A prototype of Hong Kong Taxonomy for sustainable finance".
4. The Directors received trainings and readings on topics such as "Regulator's Dialogue for Directors and Practitioners on 2025 Supervisory Focuses and Cyber Resilience Deep Dive", "Generative Artificial Intelligence Sandbox".
5. The Directors received trainings and readings on topics such as "Revised CG Code and Enhanced Risk Management and Internal Control Oversight", "Deepfake Threats to Identity Authentication during Remote On-boarding & High-risk Transactions".
6. Other training areas included but not limited to business strategy, Board leadership, banking industry developments and trends, latest economic and financial development, anti-money laundering, etc.

^ Mr. David Benjamin MARKS was appointed as a Non-executive Director on 21 January 2025.

* Ms. Alice Shing Mui LAW was appointed as an Independent Non-executive Director on 16 July 2025.

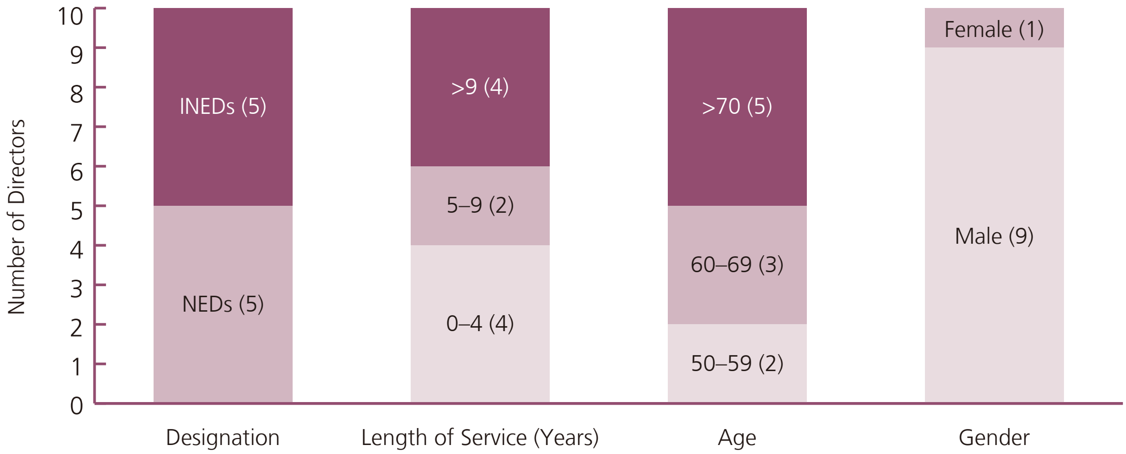
Guiding principles on Diversity

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.

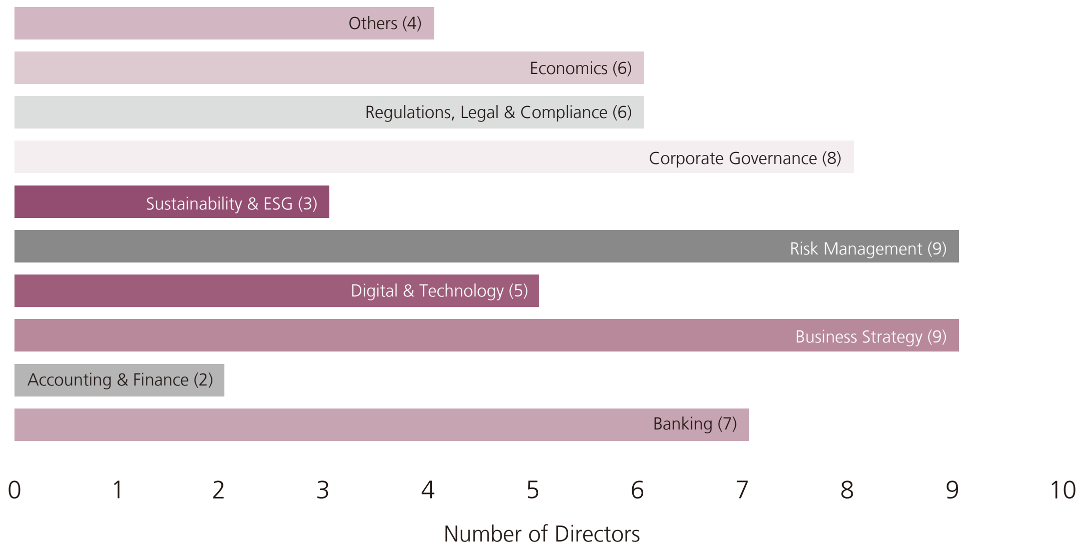
These guiding principles are not intended to, and do not, either enlarge or diminish the responsibilities of the Directors under the AoA and such other relevant laws, rules, regulations, codes, guidelines, practice notes and circulars, but to serve as reference for Directors to take appropriate actions 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.

The composition of the Board and its skills matrix demonstrating the Board diversity as at end of 2025 are as follows:

Composition



Board Skills Matrix



The Nomination and Remuneration Committee ("NRC") reviews the structure, size and composition of the Board and Board committees at least annually, assists the Board in maintaining a Board skills matrix, and makes recommendations on any proposed changes to the Board to complement the Bank's business strategy. The NRC also reviews the implementation and effectiveness of the Bank's guiding principles on Board diversity at least on an annual basis.

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 Board has the appropriate balance and breadth of backgrounds, knowledge and understanding, skills, diversity, experience and expertise to support strategy oversight, serve as a resource to management, fulfill key needs and to enable it to face challenges successfully. The Board as a whole promotes diversity of views, facilitates communication, collaboration and critical debates in the decision-making process and ensures sufficient independence and objectivity of the decisions as well as robustness and impartiality of the Board's oversight of the management. The formal procedure for the appointment/re-appointment and succession planning for Directors adopted by the Bank ensures Board diversity is maintained in all its aspects with due regard.

The Board was a single gender board during 21 January 2025 to 15 July 2025, and it has achieved its target of increasing female representation by having at least 1 female Director following the appointment of Ms. Alice Shing Mui Law as an additional INED and a member of each of the NRC and Sustainability Committee on 16 July 2025. The Board aspires to achieve an appropriate balance of gender diversity with reference to prevailing recommended best practices in order to achieve a more diversified Board composition.

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. The Bank's commitment to employee diversity and equal opportunity is stated in its Policy on Equal Opportunities, which undergoes an annual review to ensure ongoing compliance with the latest regulatory standards.

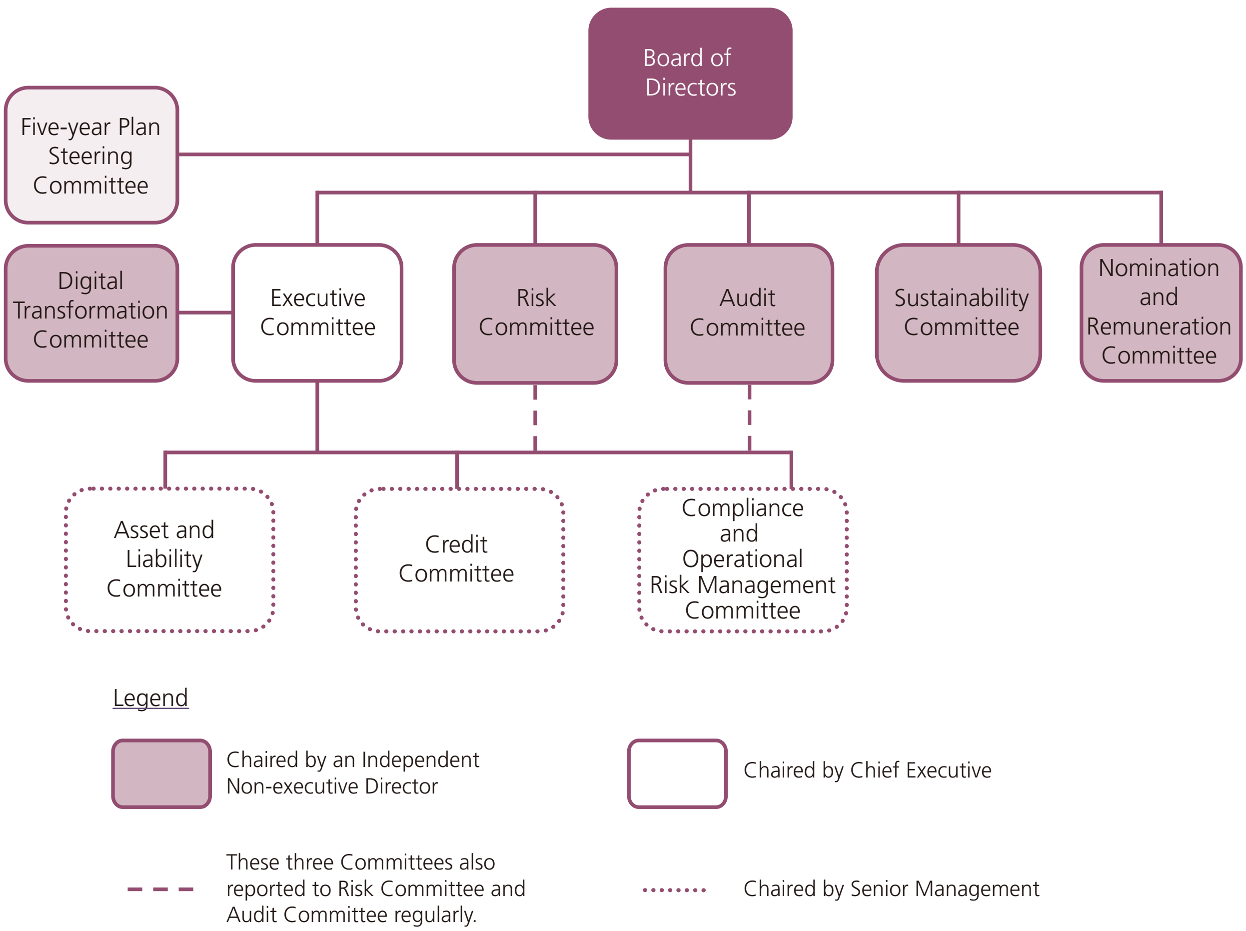
As at 31 December 2025, the total headcount (full-time employees only) of the Group was 2,007, and the male/female ratios of the senior executives and the workforce (excluding senior executives) of the Group were 58.33%/41.67% and 50.13%/49.87% respectively. The Bank continues to explore initiatives to increase female representation in leadership roles with an aim to achieving a balanced gender. Further details on diversity in the workforce are set on in the Bank's 2025 Sustainability Report to be made available on the Bank's website by April 2026.

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. A Board-level Five-year Plan Steering Committee was formed with its inaugural meeting held on 15 December 2025.

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.



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.

As at the date of this report, the Executive Committee comprised four members as named below:

- Mr. Mong-ting CHONG (Deputy Chief Executive) – Chairman*;
- Mr. YE Jun (Non-executive Director);
- Mr. John Con-sing YUNG (Non-executive Director); and
- Mr. Charles Chi Man MA (Non-executive Director).

* Mr. M. T. Chong was delegated by the Board to assume the authority and responsibilities of Chief Executive of the Bank effective 3 February 2026 and such appointment shall cease upon the appointment of the Chief Executive of the Bank.

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 Board.

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.

Five-year Plan Steering Committee

The Five-year Plan Steering Committee provides sufficient oversight and close monitoring on effective implementation of the Five-year Plan 2026–2030 of the Bank. The Five-year Plan Steering Committee provides regular updates to the Board on a quarterly basis.

As at the date of this report, the Five-year Plan Steering Committee comprised four members, namely Mr. Stephen Ching Yen LEE, Mr. John Con-sing YUNG, Mr. Charles Chi Man MA, Non-executive Directors, and Mr. Sunny Yiu Tong CHEUNG, an Independent Non-executive Director.

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, as at the date of this report, the Committee comprised three members as named below:

- Mr. Gordon Che Keung KWONG (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director); and
- Mr. E. Michael FUNG (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, the Chief Financial Controller, Chief Auditor and representatives from the Bank's external auditor shall attend the Audit Committee meetings. 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 2024 audited financial statements of the Group and the 2025 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 programs 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/or 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 2025
- Review of compliance reports on a regular basis
- Review and approval 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 Policy on Presentation and Disclosures for Financial Statements and Regulatory Disclosure, Policy on the Acquisition and Disposal of Assets
- 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 its Board committees as well as senior management-level committees 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 17 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.

As at the date of this report, the Nomination and Remuneration Committee comprised four members as named below:

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

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 its Board committees and senior management-level committees, including review of the implementation and effectiveness of the Bank's guiding principles on Board diversity 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 of Directors' fees
- Review and making recommendations to the Board for approval of nomination of candidates as senior executives and Directors of the Bank
- Review the report on board performance evaluation for 2024 delivered by the external independent consultant
- Review annual performance evaluation of each Director, Chief Executive and Deputy Chief Executives, including a review of each of their ongoing suitability, taking into account the individuals' time commitment to the business of the Bank and any potential conflicts of interest arising
- 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 and making recommendations to the Board for approval of the establishment of People Management Panel
- Review and making recommendations to the Board for approval of the proposal for (i) revising the corporate and external titles of the Bank, and (ii) change in annual salary review and bonus cycle
- Review of culture-related matters of the Bank, and the plan of reskilling and upskilling staff to build capacity for sustainable development

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.

As at the date of this report, the Risk Committee comprised three members as named below:

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

In addition to the members of the Risk Committee, the Chief Risk Officer, Chief of Legal & Compliance and Chief Financial Controller shall attend the Risk Committee meetings. 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, Artificial Intelligence Risk Management 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 2026 and beyond
- Review of reports on anti-money laundering related matters
- 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.

As at the date of this report, the Sustainability Committee comprised five members as named below:

- Mr. Sunny Yiu Tong CHEUNG (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director);
- Ms. Alice Shing Mui LAW (Independent Non-executive Director);
- Mr. Mong-ting CHONG (Deputy Chief Executive);
- Mr. Christopher Lung Yuen YEONG (Senior Management)*.

* Mr. Christopher Yeong was appointed by the Board as member of the Committee in the capacity of senior management representative, effective 3 February 2026 and such appointment shall cease upon the appointment of the Chief Executive of the Bank.

In addition to the members of the Sustainability Committee, the Chief Risk Officer and Head of Sustainability Department shall attend the Sustainability Committee meetings.

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.

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 2024 Sustainability Report
- Review and making recommendations to the Board for approval of the Corporate Governance Policy as well as other matters related to sustainability/climate risk
- Review and making recommendations to the Board for approval of the sustainability-related strategy and plan

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 and liquidity risk of the Bank to ensure the Bank has, in particular, adequate funds to meet its obligations in liquidity management and capital planning, and the ability to identify emerging risks relating to balance sheet structure and changes in local and global economic condition. The Asset and Liability Committee reports directly to the Executive Committee, Audit Committee and Risk Committee.

The members of the Asset and Liability Committee are the Chief Executive, Deputy Chief Executive(s), Chief Risk Officer, Chief Financial Controller (Chair), and Division Chiefs/Heads responsible for compliance, risk management, treasury, corporate banking and retail banking 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 and manuals, reviewing credit evaluation and approval procedures, evaluating credit applications and making credit decisions within its approved authority, monitoring loan portfolio quality, reviewing vulnerable, problem and non-performing loans and providing guide to management in recovery actions as appropriate 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, Deputy Chief Executive and Chief of Corporate Banking Group, Deputy Chief Executive and Chief of Retail & Digital Strategy, Chief Risk Officer (Chair), Head of Credit, Deputy Head of Credit, Head of Credit Appraisal, Head of Credit Control, Head of Credit Policy & Project Management and the Division Chief/Head responsible for legal & compliance 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, Deputy Chief Executive(s), Chief Risk Officer (Chair) 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 centers, 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 2025, 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 2025 Consolidated Financial Statements.

Risk Management and Internal Controls

The Board acknowledges its ultimate responsibility for the risk management and internal control systems of the Group, with its primary role to review and ensure the effectiveness of these systems in achieving business objectives while safeguarding shareholders' interests and the Group's assets. The Board is responsible for overseeing the risk management and internal control systems of the Group, including financial, operational and compliance controls on an ongoing basis. The Group confirms that these systems are appropriate and effective in aligning with the relevant principles of the CG Code. Management is accountable for the day-to-day operations of risk management and is required to provide the Board with confirmation regarding the effectiveness of these systems.

The main feature of the Group's risk management and internal control systems includes a range of processes for risk identification, evaluation and management, as well as disclosure procedures for discloseable information. Pursuing a risk-based approach, the Group has established various Board-level committees and internal departments responsible for assessing and managing the key risks facing by the Bank. These risks include credit risk, market risk, liquidity risk, operational risk, interest rate risk, strategic risk, legal risk, regulatory and compliance risk, technology risk, reputational risk and climate-related risks. The processes involve periodic risk assessments and monitoring on risk exposure and management activities, which are reported to various senior management-level committees, including the Credit Committee, Asset and Liability Committee, Compliance and Operational Risk Management Committee, as well as Board-level committees, namely, Executive Committee, Audit Committee, Risk Committee and Sustainability Committee. These committees contribute to the formulation of risk monitoring and control strategies and measures, and assist the Board in providing ultimate oversight to ensure effective execution of the internal control systems. In addition, the Group has established procedures to ensure timely, accurate and complete disclosure of information and reporting of inside information. These procedures include dedicating relevant committees to review and approve all material disclosures before publication and a regular process of monitoring of market rumors, negative news and inside information.

The Group is fully committed to upholding high standards of corporate governance practices, with internal control systems subject to regular review. A well-established organizational structure, along with 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 and 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.

During the reporting period, the Group has enhanced its risk assessment process to reflect the escalating risks from a challenging economic and operational landscape, specifically strengthening credit risk management controls by enhancing the limit structure and mitigating the risk concentration in the lending portfolio. Additional focus has been placed on property-related lending to uphold the credit asset quality, alongside a review of credit approval thresholds across various business sectors to align with the Bank's credit risk appetite. The Group is also implementing a standardized industry classification system for its credit portfolio to improve identification of carbon-sensitive sectors and enhance capabilities for managing climate-related risks. The Group is committed to enhancing our credit risk management practices, and while it might take time for these efforts to materialize, the Group will closely monitor industry trends and market conditions, taking necessary actions to protect the Bank's interest.

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 strict adherence to applicable laws, legal and regulatory requirements.

The Group has established Internal Audit Department, which operates independently of business operations and reports directly to the Audit Committee. The Internal Audit Department reviews and evaluates the design, implementation and effectiveness of the Group's risk management and internal control systems across all business units and subsidiaries, providing objective assurance to support the Board and Audit Committee in their oversight roles.

The Internal Audit Department adopts a risk-based approach in its auditing activities and develops internal audit plan annually based on risk assessment, ranking the frequency of reviews by the level of risks in different areas, with audit results and findings regularly reported to the Audit Committee. The Group's independent external auditors also review internal controls over financial reporting as part of their audit scope, providing recommendations on control enhancements. They report findings to the Audit Committee periodically, issuing an independent auditor's report. The Board's conclusion that the risk management and internal control systems are appropriate and effective is supported by periodically management reports confirming operational effectiveness without material deficiencies, quarterly reports to the Risk Committee summarizing oversight activities, and regular assessment of internal controls by the Group's Internal Audit Department and review over financial reporting by external independent auditor. The scope of review covers all material operations of the Group and its subsidiaries, including financial, operational, compliance controls and risk management processes. During the reporting period, there was one high-severity finding identified and remedial actions were duly established to address the weaknesses, no unresolved weaknesses from prior periods remain.

The Group is committed to fostering a sound corporate culture, offering clear channels for employees and external parties dealing with the Bank to report any illegal activities or misconduct observed. To facilitate this, a Whistleblowing Policy has been established, providing a confidential whistleblowing channel and investigation mechanism for employees and external parties to raise their genuine concerns in good faith about malpractice, impropriety, misconduct or unethical activity that could compromise the interests of the customers, staff, shareholders, the public or the Group's image and reputation. All information received is treated confidentially, safeguarding the identity and interests of all whistleblowers.

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)	2025	2024
Audit services	13,165	13,118
Non-audit-related services(Note)	4,768	6,613
	17,933	19,731

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 22 April 2026.

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 program 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 2025, the total headcount (full-time employees) of the Group was 2,007.

The Bank is committed to building a "people-centric culture" for the success and sustainability of the Bank. We escalated our investment in building our employees' capacity by upskilling and reskilling our employees for expanding their skill base and supporting their professional development. We provided them with a series of structured learning and development programs, covering a wide range of areas, including risk management, integrity and business ethics, regulatory compliance, cybersecurity, fintech, ESG, etc., so as to stay competitive in nowadays ever-changing banking landscape. The Bank also reviewed the study leave policy to encourage employees in self-learning and in the pursuit of banking related credentials for enhancing professional competencies.

For sustaining our digital transformation journey, the Bank engaged digital savvy talents across different functions to participate in digital innovation workshops and cross-border AI competition with participants from Hong Kong, Taiwan and Cambodia. The participants have acquired invaluable insights in these programs and have got inspirations through the exchange of innovative ideas.

We recognize that family-friendly arrangements and benefits would enhance staff wellbeing and their sense of belonging to the Bank. Thus, we fine-tuned the festive early release and dress code arrangements. The Bank also continued to dedicate resources in appreciation initiatives such as thematic exemplary behavior nomination campaign and on-site sweet treat giveaway to foster positive workplace vibe and feedback culture among supervisors and subordinates.

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). As the Bank is a non-listed public limited company and the representatives of the four shareholders, namely Empresa Inversiones Generales, S.A., Krinein Company, Wells Fargo Bank, National Association and Shanghai United International Investment Ltd., which own 48%, 9.6%, 20% and 22.4% issued shares of the Bank respectively, meet and communicate regularly, and 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.

During the year ended 31 December 2025, two physical general meetings (including the Seventy-fourth Annual General Meeting of the Bank held on 23 April 2025) were held and representatives of the four shareholders attended to consider the affairs of the Bank. All Directors of the time being (including the Chairman of the Board, the then Executive Director, Chairmen of Audit Committee, Risk Committee, Nomination and Remuneration Committee and Sustainability Committee, and all other Non-executive Directors and Independent Non-executive Directors) together with the then Chief Executive and Deputy Chief Executives were present at the two general meetings to address questions from shareholders in the respective meetings.

The Board considers it unnecessary for the time being to set up a shareholders' communication policy as stipulated in paragraph L (b) of Part 1 of the CG Code but the matter would be evaluated whenever necessary.

Constitutional Document

The shareholders of the Bank had on 22 August 2025 passed a special resolution in the form of written resolutions to approve and adopt the new Articles of Association of the Bank in substitution for and to the exclusion of the preceding Articles of Association of the Bank. The Articles of Association of the Bank is available on the corporate website (www.shacombank.com.hk).

Hong Kong, 25 February 2026

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 57 to 144, comprise:

- the consolidated statement of financial position as at 31 December 2025;
- 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 2025, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") as 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"), as applicable to audits of financial statements of public interest entities. We have also 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.

Key Audit Matters (Continued)

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

As at 31 December 2025, the Group recorded loan impairment allowances of HK$1,516 million, in respect of the total gross loan balance of HK$68,791 million. The impairment allowances of loans and advances to customers are elaborated in Notes 3.1 and 17.

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. 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;

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, 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;

– 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) and our industry knowledge; and

– We assessed the adequacy of the disclosures related to ECL of loans and advances to customers in the 2025 Annual Report 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 Company 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.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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.

– Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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 Mr. FU, Ho Kee (practising certificate number: P06354).

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 February 2026

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2025	2024
Interest income	6	**8,665,951**	10,442,155
Interest expense	6	**(4,333,903)**	(6,040,442)
Net interest income		**4,332,048**	4,401,713
Fee and commission income		**862,681**	697,559
Fee and commission expense		**(69,348)**	(66,625)
Net fee and commission income	7	**793,333**	630,934
Net trading income	8	**451,424**	302,285
Net (losses)/gains from disposal of investment securities at fair value through other comprehensive income		**(71,610)**	9,696
Dividend income from investment securities at fair value through other comprehensive income		**256,127**	348,836
Other operating income	9	**416,509**	59,654
Net losses from insurance services	10	**(6,029)**	(1,285)
Operating expenses	11	**(2,246,934)**	(1,919,236)
Credit impairment losses	12	**(2,795,268)**	(3,122,694)
Operating profit		**1,129,600**	709,903
Share of net profits of associates and joint venture		**77,908**	48,897
Gains on disposal of assets held for sale	24	**163,002**	–
Profit before income tax		**1,370,510**	758,800
Income tax expense	14	**(17,326)**	(228,144)
Profit for the year		**1,353,184**	530,656
Attributable to:			
Equity holders of the Bank		**1,337,112**	521,684
Non-controlling interests		**16,072**	8,972
		1,353,184	530,656

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31 December	
	2025	2024
Profit for the year	1,353,184	530,656
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation difference arising from operations outside Hong Kong	79,561	(102,985)
Investment securities at fair value through other comprehensive income		
– Change in fair value	765,731	494,148
– Change in credit impairment losses recognized in profit or loss	(274)	4,070
– Fair value changes transferred to profit or loss on disposal	71,610	(9,696)
– Deferred income tax	(138,162)	(79,934)
Items that will not be reclassified to profit or loss		
Equity investments at fair value through other comprehensive income		
– Change in fair value	666,597	1,285,244
– Deferred income tax	(4,175)	7,272
Share of reserves of associates and joint venture	1,452	1,944
Other comprehensive income for the year, net of tax	1,442,340	1,600,063
Net comprehensive income for the year	2,795,524	2,130,719
Attributable to:		
Equity holders of the Bank	2,779,587	2,121,805
Non-controlling interests	15,937	8,914
Net comprehensive income for the year	2,795,524	2,130,719

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2025	2024
ASSETS			
Cash and balances with banks	15	37,645,746	58,562,548
Placements with and advances to banks	16	41,142,419	26,106,090
Loans and advances to customers	17	67,275,776	75,426,755
Financial assets at fair value through profit or loss	18	155,272	202,045
Derivative financial instruments	19	499,949	505,141
Investment securities at fair value through other comprehensive income	20	68,326,253	53,313,796
Investment securities at amortized cost	21	4,739,101	4,909,880
Properties for sale	22	336,511	913,079
Investments in associates and joint venture	24	365,679	322,867
Properties and equipment	25	2,203,270	2,292,902
Investment properties	26	982,161	975,991
Intangible assets	27	72,648	76,981
Current income tax assets		243,544	43,828
Deferred income tax assets	32	1,050,441	749,694
Assets held for sale	24	–	129,664
Other assets	28	2,464,950	2,899,744
TOTAL ASSETS		227,503,720	227,431,005
LIABILITIES			
Deposits and balances from banks		4,866,038	4,690,900
Deposits from customers	29	175,133,015	177,425,402
Derivative financial instruments	19	500,469	496,586
Subordinated debts	30	2,702,108	2,692,532
Other liabilities	31	3,127,750	3,739,604
Current income tax liabilities		127,201	134,674
Deferred income tax liabilities	32	11,195	10,247
TOTAL LIABILITIES		186,467,776	189,189,945
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
Share capital	33	2,000,000	2,000,000
Retained earnings		26,846,121	25,475,571
Reserves	34	12,056,153	10,647,116
		40,902,274	38,122,687
Non-controlling interests in equity		133,670	118,373
TOTAL EQUITY		41,035,944	38,241,060
TOTAL EQUITY AND LIABILITIES		227,503,720	227,431,005

Approved and authorized for issue by the Board of Directors on 25 February 2026.

Stephen Ching Yen LEE
Chairman

John Con-sing YUNG
Director

Gordon Che Keung KWONG
Director

Charles Chi Man MA
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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		
As at 1 January 2024		2,000,000	8,976,473	25,024,409	109,939	36,110,821
Profit for the year		–	–	521,684	8,972	530,656
Other comprehensive income net of tax		–	1,670,643	(70,522)	(58)	1,600,063
Net change in fair value of investment securities at fair value through other comprehensive income	34	–	1,701,162	–	(58)	1,701,104
Currency translation difference arising from operations outside Hong Kong	34	–	(32,982)	(70,003)	–	(102,985)
Share of reserves of associates and joint venture	34	–	2,463	(519)	–	1,944
Net comprehensive income for the year		–	1,670,643	451,162	8,914	2,130,719
Payment of dividend relating to 2023		–	–	–	(480)	(480)
As at 31 December 2024 and 1 January 2025		**2,000,000**	**10,647,116**	**25,475,571**	**118,373**	**38,241,060**
Profit for the year		**–**	**–**	**1,337,112**	**16,072**	**1,353,184**
Other comprehensive income net of tax		**–**	**1,409,037**	**33,438**	**(135)**	**1,442,340**
Net change in fair value of investment securities at fair value through other comprehensive income	34	**–**	**1,361,462**	**–**	**(135)**	**1,361,327**
Currency translation difference arising from operations outside Hong Kong	34	**–**	**45,436**	**34,125**	**–**	**79,561**
Share of reserves of associates and joint venture	34	**–**	**2,139**	**(687)**	**–**	**1,452**
Net comprehensive income for the year		**–**	**1,409,037**	**1,370,550**	**15,937**	**2,795,524**
Payment of dividend relating to 2024		**–**	**–**	**–**	**(640)**	**(640)**
As at 31 December 2025		**2,000,000**	**12,056,153**	**26,846,121**	**133,670**	**41,035,944**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2025	2024
Cash flows from operating activities			
Profit before income tax		**1,370,510**	758,800
Share of net profits of associates and joint venture		**(77,908)**	(48,897)
Credit impairment losses	12	**2,795,268**	3,122,694
Depreciation expenses		**201,213**	208,585
Amortization of intangible assets	27	**25,583**	16,763
Net (gains)/losses from disposal of equipment	9	**(115)**	119
Net gains from sale of properties	9	**(350,067)**	–
Net losses/(gains) from disposal of investment securities at fair value through other comprehensive income		**71,610**	(9,696)
Interest income on investment securities at amortized cost and at fair value through other comprehensive income	6	**(2,275,493)**	(1,640,811)
Interest expense on subordinated debts	6	**177,030**	184,596
Interest expense on lease liabilities	6	**8,794**	10,759
Gains on disposal of assets held for sale	24	**(163,002)**	–
Dividend income on investment securities at fair value through other comprehensive income		**(256,127)**	(348,836)
Hong Kong profits tax paid		**(433,143)**	(653,708)
Overseas tax paid		**(230,881)**	(221,372)
Effect of exchange rate changes		**(152,552)**	82,140
Cash flows from operating activities before changes in operating assets and liabilities		**710,720**	1,461,136
Changes in operating assets and liabilities:			
– Net (increase)/decrease in balances with banks with original maturity beyond 3 months		**(1,242,810)**	2,042,119
– Net increase in placements with and advances to banks with original maturity beyond 3 months		**(7,851,730)**	(1,569,391)
– Net decrease in financial assets at fair value through profit or loss		**46,773**	852,943
– Net decrease/(increase) in derivative financial instruments		**9,075**	(32,172)
– Net decrease in loans and advances to customers		**6,230,242**	10,354,846
– Net decrease/(increase) in other assets		**399,889**	(384,660)
– Net increase/(decrease) in deposits and balances from banks		**38,667**	(297,516)
– Net decrease in deposits from customers		**(3,410,186)**	(270,025)
– Net decrease in other liabilities		**(145,540)**	(233,112)
Net cash (used in)/generated from operating activities		**(5,214,900)**	11,924,168

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2025	2024
Cash flows from investing activities			
Interest received on investment securities at amortized cost and at fair value through other comprehensive income		**1,674,017**	1,043,973
Dividends received on investment securities at fair value through other comprehensive income		**256,127**	348,836
Dividends received from associates and joint venture		**36,550**	29,330
Purchases of properties and equipment		**(72,448)**	(31,242)
Additions of properties for sale		**(199,677)**	(49,361)
Additions of computer software	27	**(21,105)**	(53,757)
Proceeds from sale of equipment		**389**	266
Proceeds from sale of assets held for sale	24	**294,667**	–
Purchases of investment securities at amortized cost and at fair value through other comprehensive income		**(54,369,355)**	(52,434,580)
Proceeds from sale and redemption of investment securities at amortized cost and at fair value through other comprehensive income		**43,046,182**	43,839,681
Deposits and proceeds received from sale of properties		**679,267**	462,591
Net cash used in investing activities		**(8,675,386)**	(6,844,263)
Cash flows from financing activities			
Redemption of subordinated debts	35	**–**	(2,346,945)
Interest paid on subordinated debts		**(173,716)**	(233,005)
Payment of lease liabilities	35	**(95,785)**	(100,202)
Dividend paid to non-controlling interests		**(640)**	(480)
Net cash used in financing activities		**(270,141)**	(2,680,632)
Net (decrease)/increase in cash and cash equivalents		**(14,160,427)**	2,399,273
Cash and cash equivalents at beginning of the year		**71,360,536**	69,703,686
Effect of exchange rate changes on cash and cash equivalents		**598,980**	(742,423)
Cash and cash equivalents at end of the year		**57,799,089**	71,360,536
Represented by:			
Cash and balances with banks with less than 3 months' original maturity	15	**33,524,417**	55,684,667
Placements with and advances to banks with less than 3 months' original maturity	16	**22,277,429**	15,078,971
Debt securities – Exchange Fund Bills with less than 3 months' original maturity		**1,997,243**	596,898
		57,799,089	71,360,536
Cash flows from operating and investing activities included:			
Interest received		**7,939,842**	10,074,776
Interest paid		**(4,521,691)**	(6,011,488)

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 Chinese Mainland.

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 25 February 2026.

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, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable HKFRS Accounting Standards ("HKFRSs") as issued by the Hong Kong Institute of Certified Public Accountants 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 instruments 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 judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Amendments, new standards and interpretations adopted by the Group for the year ended 31 December 2025

	Effective for accounting periods beginning on or after
Amendments to HKAS 21 on Lack of Exchangeability	1 January 2025

The adoption of the above amendments does not have significant impact to the financial statements of the Group.

(All amounts in HK dollar thousands unless otherwise stated)

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Amendments and new standards issued but not yet effective for the year ended 31 December 2025

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9 and HKFRS 7 – Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
Amendments to HKFRS 9 and HKFRS 7 – Contracts Referencing Nature-dependent Electricity	1 January 2026
Annual Improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
Amendment to HKAS 21 – Translation to a Hyperinflationary Presentation Currency	1 January 2027
HKFRS 18 – Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19 – Subsidiaries without Public Accountability: Disclosures	1 January 2027

The Group has not early adopted amendments and new standards that have been issued but are not yet effective for the year ended 31 December 2025. Management is currently assessing the detailed implications of applying these amendments and new standards on the Group's consolidated financial statements.

HKFRS 18 "Presentation and Disclosure in Financial Statements"

HKFRS 18 will replace HKAS 1 Presentation of financial statements, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though HKFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statement of financial performance and providing management-defined performance measures within the financial statements.

From the high-level preliminary assessment performed, the following potential impacts have been identified:

– Although the adoption of HKFRS 18 will have no impact on the Group's net profit, the Group expects that grouping items of income and expenses in the statement of profit or loss into the new categories will impact how operating profit is calculated and reported.

– Foreign exchange differences currently aggregated in the line item "net trading income" in operating profit might need to be disaggregated, with some foreign exchange gains or losses presented below operating profit.

– The line items presented on the primary financial statements might change as a result of the application of the concept of "useful structured summary" and the enhanced principles on aggregation and disaggregation.

– The Group does not expect there to be a significant change in the information that is currently disclosed in the notes because the requirement to disclose material information remains unchanged; however, the way in which the information is grouped might change as a result of the aggregation/disaggregation principles. In addition, there will be significant new disclosures required for:

  • management-defined performance measures;

  • a break-down of the nature of expenses for line items presented by function in the operating category of the statement of profit or loss – this break-down is only required for certain nature expenses; and

  • for the first annual period of application of HKFRS 18, a reconciliation for each line item in the statement of profit or loss between the restated amounts presented by applying HKFRS 18 and the amounts previously presented applying HKAS 1.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Amendments and new standards issued but not yet effective for the year ended 31 December 2025 (Continued)

HKFRS 18 "Presentation and Disclosure in Financial Statements" (Continued)

– From a cash flow statement perspective, there will be changes to how interest received and interest paid are presented. Interest paid will be presented as financing cash flows and interest received as investing cash flows, which is a change from current presentation as part of operating cash flows.

The Group will apply the new standard from its mandatory effective date of 1 January 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 December 2026 will be restated in accordance with HKFRS 18.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31 December 2025.

(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 unrealized gains on transactions between group companies are eliminated. Unrealized 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 venture

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 venture are accounted for using the equity method, and are initially recognized in the statement of financial position at cost and adjusted thereafter to recognize 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 venture, profits and losses resulting from such transactions are recognized in the Group's consolidated financial statements only to the extent of interests in the associates or joint venture that are not related to the Group.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

(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 recognized in the statement of profit or loss.

All foreign exchange gains and losses recognized 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 amortized cost of the asset and other changes in the carrying amount of the asset.

Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount, except impairment, are recognized 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 or such as equities classified as FVOCI investments, are included in other comprehensive income.

(c) Group companies and branches outside Hong Kong

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 recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in operations outside Hong Kong, 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 recognized in the statement of profit or loss as part of the gain or loss on sale.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.4 Fee and commission income and expense

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

2.5 Dividend income

Dividends are recognized 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 recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized 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 recognized for financial assets measured at amortized cost or measured at FVOCI, which results in an accounting loss being recognized 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 recognizes 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 recognized 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 amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Classification and subsequent measurement

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

– Amortized cost;

– FVOCI; or

– FVTPL.

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) Amortized 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 amortized cost. The carrying amount of these assets is adjusted by ECL recognized. 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 amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized 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 amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognized 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.

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 recognized 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 derecognizes the original financial asset and recognizes 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 recognized 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 recognized 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 derecognized 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 derecognized 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.

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 amortized cost and debt instruments measured at FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes 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 amortized cost, except for:

(a) 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

(b) 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 recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expense incurred on the financial liability.

Derecognition

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

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 recognized within “interest income” and “interest expense” in the statement of profit or loss using the effective interest method.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Interest income and expense (Continued)

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 amortized cost before any impairment allowance) or to the amortized 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 amortized 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 amortized 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 amortized cost (i.e. net of the ECL provision).

2.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognized 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.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged.

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

Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. Changes in fair value of hedging instruments qualifying as fair value hedges are recorded in statement of profit or loss, together with changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognized as ineffectiveness in profit or loss. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. If the hedged item is derecognized, the unamortized carrying value adjustment is recognized immediately in the statement of profit or loss.

Where the hedged item is an equity instrument classified as FVOCI, changes in the fair value of the hedging instrument and the hedged item are both recorded in other comprehensive income and accumulated in investment revaluation reserves. The amounts recorded in investment revaluation reserves are not subsequently reclassified to the statement of profit or loss.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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 recognized 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 recognized 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 recognized together with the loss allowance for the loan.

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 Thomson 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 recognized valuation models for determining fair values of non-standardized 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 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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 include 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 recognized 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.

(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 amortization 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 recognized in the statement of profit or loss.

2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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 realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

2.13 Revenue arising from the sale of properties

Revenue arising from the sale of properties is recognized in the statement of profit or loss on the basis that control over the ownership of the property has been passed to the customer during the current accounting period, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all the benefits of ownership of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under “other liabilities”.

2.14 Assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather that through continuing use and the asset is available for sale in its present condition. Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

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

2.15 Intangible assets

Intangible assets include computer software and the trading rights on The Stock Exchange of Hong Kong Limited (“Stock Exchange trading rights”). Computer software is measured on initial recognition at cost. The costs are amortized over their estimated useful life of 4 years to the income statement on a straight-line basis and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and the amortization method for computer software are reviewed at least annually and at each financial year end. Gains or losses from derecognition of computer software are measured as the difference between the net disposal proceeds and the carrying amount of the computer software, and recognized in the income statement when the computer software is derecognized. The Stock Exchange trading rights are carried at cost less amortization.

2.16 Leases

Leases are recognized 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 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.17 Current and deferred income tax

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

2.18 Provisions

Provisions are recognized 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 recognized 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 recognized as interest expense.

2.19 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.

2.20 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.

2.21 Segment reporting

Operating segments, and the amounts of each segment item reported in the 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.

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 monitors 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 relevant parties with appropriate authority. 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 impairment 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.

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 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

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

(i) Portfolio size
(ii) Historical behavioral 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

The key judgments 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.

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 honor its credit obligation; and
- The instrument is tagged with Substandard, Doubtful or Loss in reference to the HKMA Loan Classification.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

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 judgment 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 judgment, 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.

(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 2025 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2025	1Q–4Q 2026	1Q–4Q 2027	1Q–4Q 2028	1Q–4Q 2029
Hong Kong Gross Domestic Product ("GDP")	Base	2.3%	1.0% to 2.9%	2.8% to 2.8%	2.8% to 2.8%	2.8% to 2.8%
	Upside	3.0%	1.8% to 3.6%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	1.1%	-0.1% to 3.0%	1.7% to 1.7%	1.7% to 1.7%	1.7% to 1.7%
United States GDP	Base	0.0%	0.6% to 2.6%	1.5% to 1.5%	1.5% to 1.5%	1.5% to 1.5%
	Upside	0.9%	1.4% to 2.8%	2.5% to 2.5%	2.5% to 2.5%	2.5% to 2.5%
	Downside	-0.8%	-1.1% to 1.8%	1.0% to 1.0%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	4.0%	3.8% to 4.0%	3.6% to 3.7%	3.6% to 3.6%	3.6% to 3.6%
	Upside	3.8%	3.4% to 3.6%	3.4% to 3.4%	3.4% to 3.4%	3.4% to 3.4%
	Downside	4.3%	4.9% to 6.1%	6.1% to 6.1%	6.1% to 6.1%	6.1% to 6.1%
United States unemployment rate	Base	4.6%	4.7% to 4.9%	4.5% to 4.5%	4.5% to 4.5%	4.5% to 4.5%
	Upside	4.3%	4.0% to 4.4%	3.8% to 3.8%	3.8% to 3.8%	3.8% to 3.8%
	Downside	4.9%	5.2% to 5.4%	5.2% to 5.2%	5.2% to 5.2%	5.2% to 5.2%
Hong Kong property price index	Base	-2.8%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	2.1%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-5.9%	0.0% 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	-2.8%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	2.1%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-5.9%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
United States commercial building price index	Base	-4.6%	-1.0% to 0.4%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	-1.3%	3.0% to 7.3%	2.4% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	-9.6%	-7.8% to -1.4%	0.8% to 0.8%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	1.6%	1.6% to 2.7%	1.2% to 1.2%	1.2% to 1.2%	1.2% to 1.2%
	Upside	5.0%	4.5% to 5.4%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Downside	-8.1%	-14.2% to -6.9%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Chinese Mainland house price index	Base	-3.6%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	-1.9%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	-4.8%	0.0% to 0.0%	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 2025 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

(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 2024 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2024	1Q–4Q 2025	1Q–4Q 2026	1Q–4Q 2027	1Q–4Q 2028
Hong Kong GDP	Base	2.5%	0.9% to 2.8%	2.6% to 2.9%	2.8% to 2.8%	2.8% to 2.8%
	Upside	3.6%	1.9% to 3.9%	3.0% to 3.4%	3.0% to 3.0%	3.0% to 3.0%
	Downside	-0.6%	-3.1% to 1.2%	1.7% to 2.2%	1.7% to 1.7%	1.7% to 1.7%
United States GDP	Base	0.7%	1.2% to 2.1%	1.5% to 1.5%	1.5% to 1.5%	1.5% to 1.5%
	Upside	1.6%	1.7% to 2.5%	2.5% to 2.5%	2.5% to 2.5%	2.5% to 2.5%
	Downside	0.3%	-1.8% to 1.7%	1.0% to 1.0%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	3.2%	3.3% to 3.6%	3.6% to 3.6%	3.6% to 3.6%	3.6% to 3.6%
	Upside	2.9%	3.1% to 3.4%	3.4% to 3.4%	3.4% to 3.4%	3.4% to 3.4%
	Downside	3.4%	3.7% to 4.9%	5.4% to 6.1%	6.1% to 6.1%	6.1% to 6.1%
United States unemployment rate	Base	4.5%	4.4% to 4.6%	4.5% to 4.5%	4.5% to 4.5%	4.5% to 4.5%
	Upside	3.9%	3.9% to 4.0%	3.8% to 3.8%	3.8% to 3.8%	3.8% to 3.8%
	Downside	4.7%	5.0% to 6.5%	5.2% to 6.0%	5.2% to 5.2%	5.2% to 5.2%
Hong Kong property price index	Base	-7.7%	-5.4% to 4.1%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	-6.5%	-4.1% to 6.9%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-11.1%	-10.4% to -2.5%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Hong Kong commercial building price index	Base	-7.7%	-5.4% to 4.1%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	-6.5%	-4.1% to 6.9%	4.0% to 4.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	-11.1%	-10.4% to -2.5%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
United States commercial building price index	Base	4.0%	2.2% to 5.2%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	4.8%	3.7% to 9.5%	2.4% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	-6.6%	-9.8% to 6.8%	0.8% to 0.8%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	2.7%	3.6% to 4.8%	1.2% to 1.2%	1.2% to 1.2%	1.2% to 1.2%
	Upside	5.6%	7.1% to 9.6%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Downside	-5.9%	-6.8% to 1.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Chinese Mainland house price index	Base	-5.6%	-1.9% to 3.5%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	-3.7%	4.1% to 7.7%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	-7.9%	-4.9% to 1.5%	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 2024 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

(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 10%.

2025 and 2024	Base	Upside	Downside
Weightings applied by the Group	60%	20%	20%
Sensitivity scenario 1	40%	30%	30%
Sensitivity scenario 2	80%	10%	10%

(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 recognized 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 recognized during the period, as well as releases for financial instruments de-recognized 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:

2025	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortized cost:			
Loans and advances to customers	68,791,477	(1,515,701)	2,667,621
Balances with banks and placements with and advances to banks	78,060,260	(1,527)	(449)
Loan commitments and financial guarantee contracts	31,760,981	(66,380)	20,702
Investment securities	4,739,136	(35)	(95)
Other assets measured at amortized cost	2,524,314	(149,663)	107,763
	185,876,168	(1,733,306)	2,795,542

	Fair value	Credit impairment allowances	Credit impairment losses released from profit or loss
Debt securities at fair value through other comprehensive income*	62,734,619	(11,274)	(274)

(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)

2024

	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortized cost:			
Loans and advances to customers	76,683,508	(1,256,753)	3,050,911
Balances with banks and placements with banks	83,684,725	(1,976)	331
Loan commitments and financial guarantee contracts	36,412,973	(45,678)	25,485
Investment securities	4,910,010	(130)	(114)
Other assets measured at amortized cost	2,794,228	(43,760)	42,011
	204,485,444	(1,348,297)	3,118,624

	Fair value	Credit impairment allowances	Credit impairment losses charged to profit or loss
Debt securities at fair value through other comprehensive income*	48,403,033	(11,548)	4,070

* 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 statement of profit or loss.

(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 2025	63,583,586	84,723	9,429,455	171,470	3,669,038	1,000,560	1,429	–	76,683,508	1,256,753
Transfer to lifetime ECL	(6,646,153)	(27,525)	7,332,412	64,120	(686,259)	(305)	–	–	–	36,290
Transfer to credit impaired loans and advances	(446,800)	(1,352)	(6,080,272)	(74,980)	6,527,072	525,518	–	–	–	449,186
Transfer to 12-month ECL	2,508,161	11,335	(2,502,913)	(30,458)	(5,248)	(255)	–	–	–	(19,378)
Loans derecognized or repayments	(32,062,480)	(85,905)	(8,307,869)	(89,285)	(3,629,081)	(94,845)	–	–	(43,999,430)	(270,035)
New loans originated and further lending	31,731,143	181,844	5,798,328	71,647	208,432	38,408	–	–	37,737,903	291,899
Change in PDs/LGDs/EADs	–	161,276	–	45,675	–	1,785,520	–	–	–	1,992,471
Write-offs	–	–	–	–	(2,462,328)	(2,462,328)	–	–	(2,462,328)	(2,462,328)
Foreign exchange and other movements	477,768	188,003	19,349	41,281	334,741	11,559	(34)	–	831,824	240,843
As at 31 December 2025	59,145,225	512,399	5,688,490	199,470	3,956,367	803,832	1,395	–	68,791,477	1,515,701

	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 2024	79,419,942	122,898	7,659,027	144,968	2,535,327	116,459	10,985	2,495	89,625,281	386,820
Transfer to lifetime ECL	(4,029,768)	(7,450)	4,030,831	66,699	(1,063)	–	–	–	–	59,249
Transfer to credit impaired loans and advances	(3,040,772)	(8,130)	(1,400,220)	(9,066)	4,440,992	1,287,900	–	–	–	1,270,704
Transfer to 12-month ECL	567,608	956	(567,531)	(6,742)	(77)	(51)	–	–	–	(5,837)
Loans derecognized or repayments	(20,149,715)	(33,381)	(4,032,559)	(113,132)	(1,591,500)	(36,782)	(7,212)	–	(25,780,986)	(183,295)
New loans originated and further lending	11,156,061	19,305	3,764,778	90,883	406,295	56,553	–	–	15,327,134	166,741
Change in PDs/LGDs/EADs	–	(5,447)	–	(1,221)	–	1,814,193	–	–	–	1,807,525
Write-offs	–	–	–	–	(2,239,823)	(2,239,823)	(2,495)	(2,495)	(2,242,318)	(2,242,318)
Foreign exchange and other movements	(339,770)	(4,028)	(24,871)	(919)	118,887	2,111	151	–	(245,603)	(2,836)
As at 31 December 2024	63,583,586	84,723	9,429,455	171,470	3,669,038	1,000,560	1,429	–	76,683,508	1,256,753

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 authorizing 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 authorizations 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.

(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	
	2025	2024
Financial instruments subject to impairment		
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances	67,275,776	75,426,755
Balances with banks and placements with and advances to banks	78,058,733	83,682,749
Investment securities	67,473,720	53,312,913
Other assets	2,374,651	2,750,468
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantee contracts	1,277,701	1,512,713
Off-balance sheet commitments and other credit related contingent liabilities	30,416,900	34,854,582
Financial instruments not subject to impairment		
Financial assets at fair value through profit or loss	103,501	151,574
Derivative financial instruments	499,949	505,141

The following table contains an analysis of the credit risk exposure of financial instruments for which a credit impairment allowance is recognized. 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.

2025	Loans and advances				
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Originated credit-impaired	Total
Credit grade					
Pass	58,592,432	1,580,638	13	–	60,173,083
Special Mention	552,793	4,107,852	–	1,395	4,662,040
Substandard	–	–	665,810	–	665,810
Doubtful	–	–	3,289,719	–	3,289,719
Loss	–	–	825	–	825
Gross carrying amount	59,145,225	5,688,490	3,956,367	1,395	68,791,477
Credit impairment allowances	(512,399)	(199,470)	(803,832)	–	(1,515,701)
Net carrying amount	58,632,826	5,489,020	3,152,535	1,395	67,275,776

(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)

2024	Loans and advances				
	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Originated credit-impaired	Total
Credit grade					
Pass	63,377,184	2,523,599	24	–	65,900,807
Special Mention	206,402	6,905,856	–	1,429	7,113,687
Substandard	–	–	2,181,716	–	2,181,716
Doubtful	–	–	1,485,126	–	1,485,126
Loss	–	–	2,172	–	2,172
Gross carrying amount	63,583,586	9,429,455	3,669,038	1,429	76,683,508
Credit impairment allowances	(84,723)	(171,470)	(1,000,560)	–	(1,256,753)
Net carrying amount	63,498,863	9,257,985	2,668,478	1,429	75,426,755

As at 31 December 2025, 97% (2024: 98%) of the off-balance sheet items were "Pass" and 3% (2024: 2%) were "Special Mention". The amount classified as "Substandard", "Doubtful" or "Loss" was immaterial. Majority of the credit impairment allowances were provided on Stage 3 (2024: Stage 3). Credit impairment allowances for undrawn commitments and financial guarantee contracts were included in Note 31.

"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 realization of collateral, initiation of legal proceedings and need to be fully or partially written off.

(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					
	2025			2024		
	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total
Credit grade						
AAA	10,842,799	559,473	11,402,272	7,473,505	1,830,431	9,303,936
AA- to AA+	20,544,424	4,179,663	24,724,087	15,389,625	3,079,579	18,469,204
A- to A+	29,000,871	–	29,000,871	22,357,686	–	22,357,686
BBB- to BBB+	2,037,033	–	2,037,033	2,212,456	–	2,212,456
Unrated	309,492	–	309,492	969,761	–	969,761
Gross carrying amount	62,734,619	4,739,136	67,473,755	48,403,033	4,910,010	53,313,043
Stage 1 credit impairment allowances	11,274	35	11,309	11,548	130	11,678

(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 recognized risk transfer. In general, transfer of risk from one country to another is recognized 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 2025

			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed economies	46,855,000	244,000	–	4,661,000	51,760,000
Offshore centres	10,887,000	1,061,000	236,000	19,293,000	31,477,000
– of which Hong Kong	2,688,000	518,000	236,000	8,091,000	11,533,000
Developing Asia and Pacific	55,262,000	58,000	–	3,480,000	58,800,000
– of which Chinese Mainland	23,439,000	58,000	–	2,794,000	26,291,000
– of which Chinese Taipei	24,085,000	–	–	369,000	24,454,000

As at 31 December 2024

			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed economies	27,771,000	2,115,000	–	4,221,000	34,107,000
Offshore centres	13,194,000	690,000	1,053,000	16,586,000	31,523,000
– of which Hong Kong	4,654,000	689,000	726,000	9,569,000	15,638,000
Developing Asia and Pacific	61,889,000	34,000	650,000	2,056,000	64,629,000
– of which Chinese Mainland	27,999,000	34,000	650,000	1,360,000	30,043,000
– of which Chinese Taipei	28,419,000	–	–	588,000	29,007,000

(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.

	2025		2024	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	3,331,991	30%	3,870,207	29%
– Property investment	4,294,943	90%	4,076,059	90%
– Financial concerns	310,411	50%	847,417	55%
– Stockbrokers	376,238	100%	19,656	100%
– Wholesale and retail trade	1,605,546	38%	752,514	82%
– Manufacturing	736,422	63%	719,826	70%
– Transport and transport equipment	98,578	84%	440,684	22%
– Recreational activities	1,793,434	17%	1,994,698	19%
– Information technology – telecommunication	500,000	0%	4,998	100%
– Hotels, boarding houses and catering	1,362,603	64%	1,904,582	72%
– Others	10,624,427	48%	10,727,160	45%
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	54,843	98%	39,511	100%
– Loans for the purchase of other residential properties	5,060,579	100%	3,320,034	100%
– Credit card advances	191,581	0%	187,041	0%
– Others	4,775,661	93%	5,187,469	92%
Trade financing	5,554,855	69%	7,582,584	51%
Loans for use outside Hong Kong	27,998,079	84%	34,852,913	88%
	68,670,191	72%	76,527,353	73%

As at 31 December 2025 and 2024, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances.

(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 2025

	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	44,865,527	1,291,196	806,339	185,220	417,580
Chinese Mainland	4,258,170	102,891	66,869	104,237	126,300
United States	17,481,789	2,563,632	2,422,280	514,347	117,637
Others	2,064,705	43	41	28	49,693
	68,670,191	3,957,762	3,295,529	803,832	711,210
% of gross loans and advances to customers		5.76			
Fair value of collateral		6,576,899			

As at 31 December 2024

	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	48,366,999	2,056,284	1,608,560	462,646	211,381
Chinese Mainland	3,467,236	535,663	330,676	537,914	3,884
United States	22,532,941	1,074,011	950,104	–	38,853
Others	2,160,177	4,510	–	–	1,965
	76,527,353	3,670,468	2,889,340	1,000,560	256,083
% of gross loans and advances to customers		4.80			
Fair value of collateral		4,432,480			

(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

	2025		2024	
		% 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	195,004	0.28	1,407,035	1.83
– 1 year or less but over 6 months	1,111,379	1.62	1,171,350	1.53
– over 1 year	1,989,146	2.90	310,955	0.41
	3,295,529	4.80	2,889,340	3.77
Current market value of collateral	5,827,580		4,072,451	
Covered portion by collateral	3,199,826		2,314,905	
Uncovered portion by collateral	95,703		574,435	
Credit impairment allowances	643,442		758,164	

Collateral held against such loans and advances mainly include properties.

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

	2025		2024	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	1,574	0.002	1,783	0.002

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 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 Risk 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 Risk 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 under 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 and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Risk Committee.

(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 2025	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	19,108,817	11,424,944	4,106,662	3,005,323	37,645,746
Placements with and advances to banks	23,695,195	15,066,920	1,393,098	987,206	41,142,419
Loans and advances to customers	40,598,285	18,633,989	3,925,040	4,118,462	67,275,776
Financial assets at fair value through profit or loss	51,771	103,501	–	–	155,272
Derivative financial instruments	499,949	–	–	–	499,949
Investment securities at fair value through other comprehensive income	23,260,719	30,582,562	6,348,328	8,134,644	68,326,253
Investment securities at amortized cost	3,452,857	1,147,538	138,706	–	4,739,101
Other assets	1,532,777	791,946	51,440	88,787	2,464,950
Total	112,200,370	77,751,400	15,963,274	16,334,422	222,249,466
Liabilities					
Deposits and balances from banks	804,567	1,230,801	1,507,070	1,323,600	4,866,038
Deposits from customers	85,891,074	71,103,856	8,208,045	9,930,040	175,133,015
Derivative financial instruments	500,469	–	–	–	500,469
Subordinated debts	–	2,702,108	–	–	2,702,108
Other liabilities	2,309,623	695,018	53,151	69,958	3,127,750
Total	89,505,733	75,731,783	9,768,266	11,323,598	186,329,380
Net on-balance sheet position	22,694,637	2,019,617	6,195,008	5,010,824	35,920,086
Credit commitments	21,718,162	8,697,292	760,206	585,321	31,760,981

(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 2024	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	31,035,915	18,633,708	5,670,194	3,222,731	58,562,548
Placements with and advances to banks	13,815,384	9,549,291	1,356,285	1,385,130	26,106,090
Loans and advances to customers	41,331,344	24,887,723	4,187,765	5,019,923	75,426,755
Financial assets at fair value through profit or loss	202,045	–	–	–	202,045
Derivative financial instruments	505,141	–	–	–	505,141
Investment securities at fair value through other comprehensive income	23,494,201	22,529,788	6,167,643	1,122,164	53,313,796
Investment securities at amortized cost	1,804,034	2,792,498	313,348	–	4,909,880
Other assets	1,907,192	765,097	109,600	117,855	2,899,744
Total	114,095,256	79,158,105	17,804,835	10,867,803	221,925,999
Liabilities					
Deposits and balances from banks	241,192	2,473,217	1,513,880	462,611	4,690,900
Deposits from customers	91,952,664	66,337,603	10,547,660	8,587,475	177,425,402
Derivative financial instruments	496,586	–	–	–	496,586
Subordinated debts	–	2,692,532	–	–	2,692,532
Other liabilities	2,758,662	788,161	107,392	85,389	3,739,604
Total	95,449,104	72,291,513	12,168,932	9,135,475	189,045,024
Net on-balance sheet position	18,646,152	6,866,592	5,635,903	1,732,328	32,880,975
Credit commitments	24,498,054	9,059,114	1,569,771	1,286,034	36,412,973

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 2025, 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$84,039,000 (2024: HK$69,168,000) higher/lower. The impact on the Group's profit after taxation in 2025 was higher than that in 2024 due to the increase of net USD positions.

If HKD had weakened/strengthened 3% (2024: 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$2,630,000 (2024: HK$21,242,000) higher/lower. The impact on the Group's profit after taxation in 2025 was lower than that in 2024 due to the decrease of net foreign currencies (excluding USD) positions.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Derivatives held for risk management and hedge accounting

The Group uses foreign exchange derivatives or foreign currency denominated borrowings as fair value hedges of foreign exchange risk on certain FVOCI equity instruments. The hedged risk is the changes in the fair value of the financial instrument attributable to changes in foreign exchange rates. Hedge effectiveness is assessed at inception on a prospective basis and is reassessed on an ongoing basis based on actual experience and valuation. Fair value hedge relationships that do not meet the effectiveness requirement of hedge accounting are discontinued, effective from the date of ineffectiveness.

Fair value hedge

The amounts relating to the hedged item and the hedging instrument in 2025 (2024: Nil) were as follows:

	2025		
Hedged item	Carrying amount (including hedge adjustment)	Fair value hedge adjustment included in carrying amount	Line item in the consolidated statement of financial position where the hedging instrument is included
Investment securities at fair value through other comprehensive income	651,069	(14,274)	Investment securities at fair value through other comprehensive income

	2025		
Hedging instrument	Carrying amount (including hedge adjustment)	Fair value hedge adjustment included in carrying amount	Line item in the consolidated statement of financial position where the hedging instrument is included
Deposits and balances from banks	(665,343)	14,274	Deposits and balances from banks

The ineffectiveness arising from the fair value hedges was insignificant.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.5 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 Risk Committee is 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 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 Risk Committee.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.5 Interest rate risk in the banking book ("IRRBB") (Continued)

Governance of IRRBB risk management (Continued)

The Risk Management Division is responsible for identifying, measuring, monitoring, and controlling the interest rate risk associated with the Group's activities, 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 on a daily basis with established risk limits, including the re-pricing gap, 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 to manage IRRBB exposures.

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 branches outside Hong Kong), 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 2025 were 0.93 years and 8.33 years (2024: 0.84 years and 8.33 years) respectively.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.5 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 impacts on the 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 impacts on the economic value of equity ("ΔEVE") and changes in net interest income ("ΔNII") 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 2025 and 31 December 2024. As at 31 December 2025, the maximum losses among the six scenarios on EVE and NII would have been HK$891 million and HK$242 million (2024: HK$657 million and HK$281 million) respectively.

(All major currencies) in HK dollar thousands		(a)	(b)	(c)	(d)
		Δ EVE*		**Δ NII ****	
	Period	**31 December 2025**	31 December 2024	**31 December 2025**	31 December 2024
1	Parallel up	**891,000**	657,000	**(239,000)**	(281,000)
2	Parallel down	**–**	–	**242,000**	281,000
3	Steepener	**12,000**	1,000		
4	Flattener	**373,000**	379,000		
5	Short rate up	**673,000**	612,000		
6	Short rate down	**10,000**	–		
7	Maximum loss	**891,000**	657,000	**242,000**	281,000
	Period	**31 December 2025**		31 December 2024	
8	Tier 1 capital	**36,604,045**		34,677,399	

* Positive value indicates negative impact in EVE
** Negative value indicates increase in NII, positive value indicates decrease in NII

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 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 investment and funding strategies, particularly to ensure that the Bank has adequate funds to meet its obligations. The Group's day-to-day liquidity is managed by the Treasury Division in accordance with the guidelines and procedures outlined in the liquidity risk management policy. The Risk Management Division is responsible for identifying, measuring, monitoring, and controlling the liquidity risk associated with the Group's activities within the liquidity risk management framework.

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.

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 utilizes results from stress-testing and reverse stress-testing to enhance 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.

(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 2025	Repayable on demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	3,415,865	34,229,881	–	–	–	–	–	37,645,746
Placements with and advances to banks	–	–	33,923,974	7,023,886	194,559	–	–	41,142,419
Loans and advances to customers	4,763,072	2,974,275	4,531,168	9,648,104	26,546,643	15,682,761	3,129,753	67,275,776
Financial assets at fair value through profit or loss	–	–	–	103,501	–	–	51,771	155,272
Derivative financial instruments	–	257,558	115,792	85,754	40,845	–	–	499,949
Investment securities at fair value through other comprehensive income	–	2,688,097	6,985,462	16,968,566	36,025,604	64,016	5,594,508	68,326,253
Investment securities at amortized cost	–	905,887	2,079,781	1,697,213	56,220	–	–	4,739,101
Properties for sale	–	28,043	56,085	252,383	–	–	–	336,511
Investments in associates and joint venture	–	–	–	–	–	–	365,679	365,679
Properties and equipment	–	7,670	14,178	42,707	41,993	39,337	2,057,385	2,203,270
Investment properties	–	–	–	–	–	–	982,161	982,161
Assets held for sale	–	–	–	–	–	–	–	–
Other assets (including intangible assets, current and deferred tax assets)	322,984	661,003	452,239	561,896	658,863	98,082	1,076,516	3,831,583
Total assets	8,501,921	41,752,414	48,158,679	36,384,010	63,564,727	15,884,196	13,257,773	227,503,720
Liabilities								
Deposits and balances from banks	935,137	2,188,347	1,285,619	456,935	–	–	–	4,866,038
Deposits from customers	55,081,900	46,687,446	58,797,582	14,509,549	56,538	–	–	175,133,015
Derivative financial instruments	–	252,474	130,910	76,242	40,843	–	–	500,469
Subordinated debts	–	–	–	–	–	2,702,108	–	2,702,108
Other liabilities (including current and deferred tax liabilities)	666,979	1,375,866	780,134	312,119	62,634	57,219	11,195	3,266,146
Total liabilities	56,684,016	50,504,133	60,994,245	15,354,845	160,015	2,759,327	11,195	186,467,776
Net liquidity gap	(48,182,095)	(8,751,719)	(12,835,566)	21,029,165	63,404,712	13,124,869	13,246,578	41,035,944
Of which lease liabilities included in:								
Other liabilities	–	7,299	12,014	38,786	36,197	57,219	–	151,515

(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 2024	Repayable on demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	5,062,582	53,499,966	–	–	–	–	–	58,562,548
Placements with and advances to banks	–	–	20,391,042	5,715,048	–	–	–	26,106,090
Loans and advances to customers	6,362,615	6,486,504	4,585,843	17,843,893	21,231,161	14,472,365	4,444,374	75,426,755
Financial assets at fair value through profit or loss	–	–	–	151,574	–	–	50,471	202,045
Derivative financial instruments	–	203,477	156,160	108,504	37,000	–	–	505,141
Investment securities at fair value through other comprehensive income	–	2,147,451	5,728,445	18,006,212	21,813,633	704,594	4,913,461	53,313,796
Investment securities at amortized cost	–	305,741	1,061,721	2,734,883	807,535	–	–	4,909,880
Properties for sale	–	176,529	353,057	319,578	63,915	–	–	913,079
Investments in associates and joint venture	–	–	–	–	–	–	322,867	322,867
Properties and equipment	–	8,171	15,863	56,284	70,836	50,664	2,091,084	2,292,902
Investment properties	–	–	–	–	–	–	975,991	975,991
Assets held for sale	–	–	–	129,664	–	–	–	129,664
Other assets (including intangible assets, current and deferred tax assets)	501,732	1,067,037	421,553	429,482	412,865	90,189	847,389	3,770,247
Total assets	11,926,929	63,894,876	32,713,684	45,495,122	44,436,945	15,317,812	13,645,637	227,431,005
Liabilities								
Deposits and balances from banks	474,470	3,048,737	806,583	361,110	–	–	–	4,690,900
Deposits from customers	50,867,406	42,360,751	65,326,733	18,739,084	131,428	–	–	177,425,402
Derivative financial instruments	–	230,658	145,695	83,583	36,650	–	–	496,586
Subordinated debts	–	–	–	–	–	2,692,532	–	2,692,532
Other liabilities (including current and deferred tax liabilities)	1,262,077	1,413,033	661,908	383,422	83,028	70,810	10,247	3,884,525
Total liabilities	52,603,953	47,053,179	66,940,919	19,567,199	251,106	2,763,342	10,247	189,189,945
Net liquidity gap	(40,677,024)	16,841,697	(34,227,235)	25,927,923	44,185,839	12,554,470	13,635,390	38,241,060
Of which lease liabilities included in:								
Other liabilities	–	7,403	14,432	51,396	62,162	70,811	–	206,204

3.3.3 Funding approach

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

(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 2025	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	3,130,678	1,297,829	465,428	–	–	4,893,935
Deposits from customers	102,118,663	59,308,470	14,811,575	59,216	–	176,297,924
Subordinated debts	–	86,824	86,824	694,588	3,136,226	4,004,462
Other liabilities	1,694,265	400,431	195,332	51,791	118,859	2,460,678
Total	106,943,606	61,093,554	15,559,159	805,595	3,255,085	187,656,999
Assets held for managing liquidity risk	49,638,853	48,424,064	38,174,223	69,394,160	30,487,441	236,118,741

As at 31 December 2024	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	3,537,512	816,189	367,057	–	–	4,720,758
Deposits from customers	93,698,746	66,119,657	19,269,526	137,623	–	179,225,552
Subordinated debts	–	86,613	86,613	692,906	3,298,825	4,164,957
Other liabilities	2,231,433	50,748	241,109	99,915	86,846	2,710,051
Total	99,467,691	67,073,207	19,964,305	930,444	3,385,671	190,821,318
Assets held for managing liquidity risk	74,487,238	32,654,057	46,646,399	48,649,655	29,574,638	232,011,987

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.

(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 2025	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)	(304)	–	–	–	(304)
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(82,069,387)	(24,294,610)	(23,838,607)	(7,752)	(130,210,356)
– Inflow	82,077,174	24,277,171	23,856,880	7,754	130,218,979
Interest rate contracts					
– Outflow	(12,977)	(27,338)	(123,028)	(669,682)	(833,025)
– Inflow	12,977	27,338	123,028	669,682	833,025

As at 31 December 2024	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)	5	(347)	–	–	(342)
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(40,183,490)	(28,768,386)	(22,480,653)	(504,637)	(91,937,166)
– Inflow	40,157,965	28,776,227	22,515,434	502,861	91,952,487
Interest rate contracts					
– Outflow	–	–	–	–	–
– Inflow	–	–	–	–	–

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.

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 and advances to banks

Balances with banks and placements with and advances to banks are stated net of impairment allowances. 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 amortized cost

The fair value of investment securities at amortized 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 amortized cost, please refer to Note 21. The fair value of investment securities at amortized cost is classified under Level 1 (2025: HK$4,744,753,000, 2024: HK$3,678,632,000) and Level 2 (2025: Nil, 2024: HK$1,239,410,000) in the fair value hierarchy. 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. The carrying amount at the reporting date approximates their fair value.

(v) Subordinated debts

The fair value of subordinated debts of HK$2,803,984,000 (2024: HK$2,753,091,000) 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 recognize 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.

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.

(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 2025	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	–	103,501	–	103,501
Equity securities	34,246	–	17,525	51,771
Derivative financial instruments				
Exchange rate contracts	–	483,069	–	483,069
Interest rate contracts	–	16,880	–	16,880
Investment securities at fair value through other comprehensive income				
Debt securities	36,977,870	25,753,875	2,874	62,734,619
Equity securities	4,911,913	–	679,721	5,591,634
Total Assets	41,924,029	26,357,325	700,120	68,981,474
Derivative financial instruments				
Exchange rate contracts	–	483,589	–	483,589
Interest rate contracts	–	16,880	–	16,880
Total Liabilities	–	500,469	–	500,469

As at 31 December 2024	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	–	151,574	–	151,574
Equity securities	34,952	–	15,519	50,471
Derivative financial instruments				
Exchange rate contracts	–	505,141	–	505,141
Interest rate contracts	–	–	–	–
Investment securities at fair value through other comprehensive income				
Debt securities	29,995,530	18,404,629	2,874	48,403,033
Equity securities	4,248,620	–	662,143	4,910,763
Total Assets	34,279,102	19,061,344	680,536	54,020,982
Derivative financial instruments				
Exchange rate contracts	–	496,586	–	496,586
Interest rate contracts	–	–	–	–
Total Liabilities	–	496,586	–	496,586

There were no significant transfers of financial assets or liabilities between level 1, level 2 and level 3 fair value hierarchy classifications.

(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 exchange rate contracts and interest 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, sustainable 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$18,776,000 (2024: HK$11,027,000) or decreased by HK$17,260,000 (2024: HK$9,307,000) and profit or loss would be increased/decreased by HK$876,000 (2024: HK$776,000) respectively.

The following table presents the changes in level 3 instruments for the years ended 31 December 2024 and 2025 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 2024	13,785	13,785	688,681	2,874	691,555
Total gains					
– Profit	1,734	1,734	–	–	–
– Other comprehensive income	–	–	(2,670)	–	(2,670)
Exchange adjustments	–	–	(23,868)	–	(23,868)
As at 31 December 2024 and 1 January 2025	15,519	15,519	662,143	2,874	665,017
Total gains					
– Profit	2,006	2,006	–	–	–
– Other comprehensive income	–	–	(14,002)	–	(14,002)
Exchange adjustments	–	–	31,580	–	31,580
As at 31 December 2025	17,525	17,525	679,721	2,874	682,595

(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.

	2025	2024
CET1 capital ratio	27.3%	25.1%
Tier 1 capital ratio	27.3%	25.1%
Total capital ratio	30.4%	28.0%

3.6 Operational risk management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all products, activities, processes and systems. The Compliance and Operational Risk Management Committee is responsible for governing and overseeing matters related to the management of the Group's operational risks. The Operational Risk Management Department, as a second line of defense function, supports the business and support units in controlling and managing operational risk arising from their activities in accordance with the controls and procedures outlined in the operational risk management policy approved by the Risk Committee. Insurance policies are taken to mitigate unforeseeable operational risk. No significant operational loss event identified in 2025 (2024: Nil). A Business Continuity Plan and an Operational Resilience Framework have been 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates, and management judgments 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 judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgments 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 amortized 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 judgments 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).

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 currently implementing a new platform for funds transfer pricing, and exploring systems to streamline expense allocations. Once these systems are implemented, there will be more granular attribution of funding costs and expense allocations for segment-level reporting.

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, sales of properties 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.

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT REPORTING (CONTINUED)

(a) By operating segment (Continued)

2025	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	3,339,161	61,168	840,841	90,878	4,332,048
Non-interest income	250,498	47,171	379,814	1,162,271	1,839,754
Operating income	3,589,659	108,339	1,220,655	1,253,149	6,171,802
Operating expenses	(1,209,718)	(88,131)	(196,195)	(752,890)	(2,246,934)
Operating profit before credit impairment losses	2,379,941	20,208	1,024,460	500,259	3,924,868
Credit impairment losses	(2,779,789)	(16,778)	778	521	(2,795,268)
Operating profit/(loss) after credit impairment losses	(399,848)	3,430	1,025,238	500,780	1,129,600
Share of net profits of associates and joint venture	–	–	–	77,908	77,908
Gains on disposal of asset held for sale	–	–	–	163,002	163,002
Profit/(loss) before income tax (after taking into account internal fund transfers and cost allocation)	(399,848)	3,430	1,025,238	741,690	1,370,510
Income tax expense	(125,273)	566	170,756	(28,723)	17,326
Depreciation expenses and amortization	101,715	9,789	8,410	106,882	226,796
Total assets	69,239,089	2,816,685	148,184,356	7,263,590	227,503,720
Total liabilities	176,294,132	68,788	8,591,450	1,513,406	186,467,776

2024	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	4,204,534	28,402	42,475	126,302	4,401,713
Non-interest income	241,616	64,355	311,981	732,168	1,350,120
Operating income	4,446,150	92,757	354,456	858,470	5,751,833
Operating expenses	(1,123,064)	(84,029)	(155,711)	(556,432)	(1,919,236)
Operating profit before credit impairment losses	3,323,086	8,728	198,745	302,038	3,832,597
Credit impairment losses	(3,116,129)	(1,423)	(4,293)	(849)	(3,122,694)
Operating profit after credit impairment losses	206,957	7,305	194,452	301,189	709,903
Share of net profits of associates and joint venture	–	–	–	48,897	48,897
Gains on disposal of asset held for sale	–	–	–	–	–
Profit before income tax (after taking into account internal fund transfers and cost allocation)	206,957	7,305	194,452	350,086	758,800
Income tax expense	194,379	1,150	30,847	1,768	228,144
Depreciation expenses and amortization	158,030	6,627	7,632	53,059	225,348
Total assets	77,127,270	3,309,069	139,398,564	7,596,102	227,431,005
Total liabilities	178,900,485	67,654	8,591,562	1,630,244	189,189,945

(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.

2025

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit/(loss) before income tax	Capital expenditure
Hong Kong and Chinese Mainland	204,970,351	178,629,434	31,349,920	5,364,060	1,920,016	144,390
United States	18,324,595	5,505,699	406,301	708,997	(607,538)	185
United Kingdom	4,208,774	2,332,643	4,760	98,745	58,032	883
Total	227,503,720	186,467,776	31,760,981	6,171,802	1,370,510	145,458

2024

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit/(loss) before income tax	Capital expenditure
Hong Kong and Chinese Mainland	198,286,269	180,984,879	35,399,405	4,523,295	(85,520)	162,284
United States	24,603,299	6,301,045	890,465	1,119,592	772,402	103
United Kingdom	4,541,437	1,904,021	123,103	108,946	71,918	1,651
Total	227,431,005	189,189,945	36,412,973	5,751,833	758,800	164,038

6 NET INTEREST INCOME

	2025	2024
Balances with banks and placements with and advances to banks	2,700,619	3,507,191
Investment securities at amortized cost	150,262	353,924
Investment securities at fair value through other comprehensive income	2,125,231	1,286,887
Loans and advances to customers	3,672,104	5,274,339
Others	17,735	19,814
Interest income on financial assets that are not measured at fair value through profit or loss	8,665,951	10,442,155
Deposits and balances from banks	169,865	188,539
Deposits from customers	3,969,980	5,647,497
Subordinated debts	177,030	184,596
Lease liabilities	8,794	10,759
Others	8,234	9,051
Interest expense on financial liabilities that are not measured at fair value through profit or loss	4,333,903	6,040,442

(All amounts in HK dollar thousands unless otherwise stated)

7 NET FEE AND COMMISSION INCOME

	2025	2024
Fee and commission income		
Bills	42,317	50,033
Nominees, custodian and securities brokerage	221,291	152,027
Investment products	115,042	74,021
Remittance	53,365	55,093
Credit cards	54,615	56,008
Retail banking	43,650	43,883
Safe deposit boxes	60,849	61,597
Insurance	97,224	54,429
Loans and advances and facility fees	155,805	146,847
Trust and other commissions	18,523	3,621
Total fee and commission income	862,681	697,559
Less: fee and commission expense	(69,348)	(66,625)
Net fee and commission income	793,333	630,934
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	252,737	252,888
– fee and commission expense	7,792	7,595
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	38,149	23,895

(All amounts in HK dollar thousands unless otherwise stated)

8 NET TRADING INCOME

	2025	2024
Foreign exchange	389,584	238,450
Interest rate instruments	13,627	41,905
Equity instruments:		
– Trading gains	9,126	2,175
– Dividend income	1,388	1,237
Other trading income	37,699	18,518
	451,424	302,285

"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, interest rate swaps and cross currency swaps. "Equity instruments" include equity securities.

9 OTHER OPERATING INCOME

	2025	2024
Gross rental income from investment properties (Note a)	58,470	49,980
Net gains from sale of properties (Note b)	350,067	–
Net gains/(losses) from disposal of equipment	115	(119)
Others	7,857	9,793
	416,509	59,654

Note a: Direct operating expenses arising from investment properties of HK$3,083,000 (2024: HK$34,000) are included in premises management expenses (Note 11).

Note b: The Group completed the redevelopment project in West Point in January 2025 and handed over the sold residential units to the buyers. For the year ended 31 December 2025, the Group recognized net gains from the sale of properties amounting to HK$350,067,000 (2024: Nil). This was attributable to sales proceeds of HK$1,126,312,000 (2024: Nil), net of direct costs of HK$776,245,000 (2024: Nil). Partial sales proceeds amounted to HK$462,591,000 (2024: Nil) was recognized from carried-forward contract liabilities (Note 31).

10 NET LOSSES FROM INSURANCE SERVICES

	2025	2024
Insurance revenue	47,912	50,221
Insurance service expenses	(43,179)	(36,524)
Net expenses from reinsurance contracts held	(8,123)	(10,851)
Net insurance finance expenses	(2,639)	(4,131)
	(6,029)	(1,285)

(All amounts in HK dollar thousands unless otherwise stated)

11 OPERATING EXPENSES

	2025	2024
Auditor's remuneration		
Audit services (Note a)	13,165	13,118
Non-audit-related services (Note b)	4,768	6,613
Premises management expenses	58,393	45,423
Depreciation expenses		
Properties and equipment	92,944	100,679
Right-of-use assets	99,376	99,013
Investment properties	8,893	8,893
Amortization of intangible assets	25,583	16,763
Employee benefit expenses		
Wages and salaries and other costs (Note c)	1,279,240	1,128,738
Pension costs – defined contribution schemes	98,770	96,096
Expenses relating to short-term and low-value leases	3,498	3,488
Information technology and communications	146,133	122,530
Legal and consultancy	127,519	51,270
Printing, stationery and postage	21,286	21,425
Promotion and advertising	71,957	30,705
Others	195,409	174,482
	2,246,934	1,919,236

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 fees for non-audit-related services include the fees 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).

(All amounts in HK dollar thousands unless otherwise stated)

12 CREDIT IMPAIRMENT LOSSES

	2025	2024
Loans and advances to customers	2,667,621	3,050,911
Balances with banks and placements with and advances to banks	(449)	331
Investment securities	(369)	3,956
Other assets	107,763	42,011
Loan commitments and financial guarantee contracts	20,702	25,485
	2,795,268	3,122,694

13 BENEFITS AND INTERESTS OF DIRECTORS

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:

	2025	2024
Fees	7,557	7,723
Basic salaries, allowances and bonus	5,531	17,240
Contributions to retirement benefits schemes	–	708
	13,088	25,671

(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% (2024: 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 Group is subject to the Organization for Economic Co-operation and Development ("OECD") Pillar Two model rules. On 6 June 2025, Hong Kong enacted Pillar Two legislation, which became effective on 1 January 2025. Under the new rules, the Group is liable to pay a top-up tax for the difference between its effective tax rate per jurisdiction under Pillar Two model rules and the minimum effective tax rate of 15%. The Group's effective tax rates under Pillar Two model rules in all jurisdictions exceed 15%, resulting in no top-up tax liability for the year ended 31 December 2025.

In accordance with the amendments to HKAS 12 "Income Taxes", the Group has applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

	2025	2024
Current income tax:		
– Hong Kong profits tax	419,031	397,869
– Overseas taxation	35,456	232,741
– Under/(over) provisions in respect of prior years	1,838	(11,707)
Total current income tax	456,325	618,903
Deferred income tax:		
– Hong Kong deferred tax	(178,719)	(351,966)
– Overseas deferred tax	(260,280)	(38,793)
Total deferred income tax (Note 32)	(438,999)	(390,759)
Income tax expense	17,326	228,144

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:

	2025	2024
Profit before tax	1,370,510	758,800
Tax calculated at domestic tax rates applicable to profits in the respective countries	158,965	201,449
Tax effects of:		
Income not subject to tax	(166,910)	(75,552)
Expenses not deductible for tax purposes	23,433	113,954
Under/(over) provisions in respect of prior years	1,838	(11,707)
Income tax expense	17,326	228,144

(All amounts in HK dollar thousands unless otherwise stated)

15 CASH AND BALANCES WITH BANKS

	2025	2024
Cash in hand	729,432	985,889
Balances with central banks and the Hong Kong Monetary Authority	1,295,656	2,491,594
Balances with banks	35,621,380	55,086,425
	37,646,468	58,563,908
Less: Stage 1 credit impairment allowances	(722)	(1,360)
	37,645,746	58,562,548
Gross amount of cash and balances with banks	37,646,468	58,563,908
Less: Amount with an original maturity beyond 3 months or deposits with designated banks subject to regulatory requirement	(4,122,051)	(2,879,241)
Amount included in cash and cash equivalents	33,524,417	55,684,667

Included in the gross amount of cash and balances with banks, HK$210,976,000 (2024: HK$272,760,000) were deposited in central bank or designated banks in the Chinese Mainland as at 31 December 2025, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business.

16 PLACEMENTS WITH AND ADVANCES TO BANKS

	2025	2024
Placements with banks maturing between 1 and 12 months	40,948,662	26,106,706
Advances to banks	194,562	–
	41,143,224	26,106,706
Less: Stage 1 credit impairment allowances	(805)	(616)
	41,142,419	26,106,090
Gross amount of placements with and advances to banks	41,143,224	26,106,706
Less: Amount with an original maturity beyond 3 months or deposits with designated banks subject to regulatory requirement	(18,865,795)	(11,027,735)
Amount included in cash and cash equivalents	22,277,429	15,078,971

Included in the gross amount of placements with and advances to banks, HK$165,925,000 (2024: HK$200,614,000) were deposited with designated banks in the Chinese Mainland as at 31 December 2025, to comply with the local statutory requirement.

(All amounts in HK dollar thousands unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS

	2025	2024
Gross loans and advances to customers	68,791,477	76,683,508
Less: credit impairment allowances		
– Stage 1	(512,399)	(84,723)
– Stage 2	(199,470)	(171,470)
– Stage 3	(803,832)	(1,000,560)
	67,275,776	75,426,755
Gross trade bills and other eligible bills included within gross loans and advances to customers	121,286	156,155
Less: credit impairment allowances on trade bills		
– Stage 1	(580)	(74)
– Stage 2	(79)	(36)
	120,627	156,045

The Group accepted listed securities at fair value of HK$2,647,465,000 (2024: HK$2,362,754,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2025	2024
Debt securities		
Unlisted	103,501	151,574
Total debt securities	103,501	151,574
Equity securities		
Listed in Hong Kong	34,246	34,952
Unlisted	17,525	15,519
Total equity securities	51,771	50,471
Total	155,272	202,045
Type of issuer:		
Public sector entities	5,983	5,441
Banks	103,501	151,574
Corporates	45,788	45,030
	155,272	202,045

(All amounts in HK dollar thousands unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized 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 2025			
		Fair values	
	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	**150,746,260**	**483,069**	**(483,589)**
Interest rate contracts	**3,333,784**	**16,880**	**(16,880)**
Total recognized derivative assets/(liabilities)		**499,949**	**(500,469)**

As at 31 December 2024			
		Fair values	
	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	112,964,131	505,141	(496,586)
Interest rate contracts	–	–	–
Total recognized derivative assets/(liabilities)		505,141	(496,586)

	Credit risk weighted amount	
	2025	2024
Derivatives held for trading	**613,013**	771,075

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 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.

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

(All amounts in HK dollar thousands unless otherwise stated)

19 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.

20 INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2025	2024
Debt securities		
Listed in Hong Kong	**7,575,154**	7,846,693
Listed outside Hong Kong	**25,893,564**	17,142,854
Unlisted	**29,265,901**	23,413,486
Total debt securities	**62,734,619**	48,403,033
Equity securities		
Listed outside Hong Kong	**4,911,913**	4,248,620
Unlisted	**679,721**	662,143
Total equity securities	**5,591,634**	4,910,763
Total	**68,326,253**	53,313,796
Type of issuer:		
Sovereigns	**5,812,880**	5,013,083
Public sector entities	**4,774,148**	4,536,672
Banks	**42,361,468**	30,460,154
Corporates	**15,377,757**	13,303,887
	68,326,253	53,313,796

As at 31 December 2025, equity securities designated at fair value through other comprehensive income amounting to HK$5,591,634,000 (2024: HK$4,910,763,000) were for long term investment purpose, of which HK$4,797,531,000 (2024: HK$4,141,966,000) were the fair value of the Bank's investment in Bank of Shanghai, China. In addition, unlisted Exchange Fund Bills at fair value through other comprehensive income of HK$199,940,000 (2024: HK$2,978,498,000) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

(All amounts in HK dollar thousands unless otherwise stated)

21 INVESTMENT SECURITIES AT AMORTIZED COST

	2025	2024
Debt securities		
Listed in Hong Kong	501,042	634,467
Listed outside Hong Kong	978,106	2,621,339
Unlisted	3,259,988	1,654,204
	4,739,136	4,910,010
Less: Stage 1 credit impairment allowances	(35)	(130)
	4,739,101	4,909,880
Type of issuer:		
Sovereigns	3,803,870	1,636,864
Public sector entities	587,590	1,851,706
Banks	347,641	1,421,310
	4,739,101	4,909,880

As at 31 December 2025, certain of the Bank's branches in the United States have pledged investment securities at amortized cost amounting to HK$265,463,000 (2024: HK$262,004,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements. In addition, unlisted Exchange Fund Bills at amortized cost of HK$3,259,988,000 (2024: HK$414,701,000) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

22 PROPERTIES FOR SALE

	2025	2024
Property development		
Leasehold land held for development for sale	119,081	381,187
Building development cost	217,430	531,892
	336,511	913,079

The Group completed the redevelopment project in West Point in January 2025 and handed over the sold residential units to the buyers. The above balance of HK$336,511,000 as at 31 December 2025 (2024: HK$913,079,000) represented the costs of the unsold residential units. The net gains from the sale of properties were included in other operating income (Note 9) and the deposits received from the buyers based on payment schedules established in contracts were included in other liabilities (Note 31).

(All amounts in HK dollar thousands unless otherwise stated)

23 SUBSIDIARIES

The following is a list of the subsidiaries as at 31 December 2025:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2025 Total assets	2025 Total equity	2024 Total assets	2024 Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	100%[1]	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	60%[2]	31,264	28,719	16,783	16,607
Shacom Futures Limited	Hong Kong	Advising and dealing in futures contracts Hong Kong	600,000 ordinary shares	100%[1]	67,752	50,951	80,392	53,302
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100%[1]	4,236,162	13,599	4,089,194	13,389
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	100%[1]	25,653	2,873	25,285	3,254
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	5,347	5,347	5,392	5,392
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	2,806	2,806	2,752	2,752
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100%[1]	1,086,848	4,910	1,086,938	4,965
Infinite Financial Solutions Limited	Hong Kong	Information technology services provider Hong Kong	500,000 ordinary shares	100%[1]	35,409	29,842	36,648	26,470
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100%[1]	13,104	9,874	3,538	2,108
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	2,000,000 ordinary shares	100%[1]	430,909	277,136	443,210	271,753

(All amounts in HK dollar thousands unless otherwise stated)

23 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2025 Total assets	2025 Total equity	2024 Total assets	2024 Total equity
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100%[1]	1,063	858	989	826
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60%[2]	392,545	305,457	363,395	279,352
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%[1]	8	(273)	8	(243)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	221,469	(142,854)	527,969	(46,893)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	779,236	(208,593)	1,733,125	(128,693)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	228,890	54,208	253,208	78,884
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	230,067	55,284	254,340	79,922
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	231,213	56,544	255,446	81,149

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.

(All amounts in HK dollar thousands unless otherwise stated)

24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2025	2024
Share of net assets		
– interest in associates	326,157	284,001
– interest in joint venture	39,522	38,866
	365,679	322,867

On 27 December 2024, the Bank entered into an agreement with Yue Xiu Enterprises (Holdings) Limited to sell its interests in Hong Kong Life Insurance Limited ("Hong Kong Life") at a consideration of HK$295,000,000. Accordingly, the Bank's interests in Hong Kong Life amounting to HK$129,664,000 were reclassified from "Investments in associates and joint venture" to "Assets held for sale". The disposal transaction was completed on 9 October 2025, resulting in gains on disposal of HK$163,002,000, which was recognized in the statement of profit or loss.

The Group's interests in its associates and joint venture for the years ended 2025 and 2024, 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
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 also has the right to vote on the distribution of the entity's assets upon the winding up of the entity.

Note c: Transactions with the associates and joint venture entered into by the Group in the course of normal business are included in Note 39.

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

	2025	2024
Assets	3,116,475	2,760,946
Liabilities	605,162	475,698
Revenue	1,227,719	1,176,461
Profits after tax	492,189	367,877
Total comprehensive income	494,690	372,186
Dividends received	36,550	29,330

(All amounts in HK dollar thousands unless otherwise stated)

25 PROPERTIES AND EQUIPMENT

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development: Leasehold land	Property under development: Development cost	Right-of-use assets	Total
As at 1 January 2024							
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
Year ended 31 December 2024							
Opening net book amount	1,143,593	671,175	137,908	96,529	112,770	222,038	2,384,013
Additions	–	–	19,458	–	11,784	79,039	110,281
Disposals/write-off/expiry							
Cost	–	–	(30,010)	–	–	(246,940)	(276,950)
Accumulated depreciation	–	–	29,625	–	–	246,940	276,565
Depreciation charge	(17,432)	(25,796)	(57,341)	(110)	–	(99,013)	(199,692)
Exchange adjustments	–	(823)	(246)	–	–	(246)	(1,315)
Closing net book amount	1,126,161	644,556	99,394	96,419	124,554	201,818	2,292,902
As at 31 December 2024							
Cost	1,391,522	1,079,352	1,004,829	97,823	124,554	418,529	4,116,609
Accumulated depreciation	(265,361)	(434,796)	(905,435)	(1,404)	–	(216,711)	(1,823,707)
Net book amount	1,126,161	644,556	99,394	96,419	124,554	201,818	2,292,902
Year ended 31 December 2025							
Opening net book amount	1,126,161	644,556	99,394	96,419	124,554	201,818	2,292,902
Additions	–	53,662	18,786	–	–	51,905	124,353
Adjustments	–	–	–	–	–	(8,675)	(8,675)
Transfers upon completion of redevelopment project (Note a)							
Cost	44,646	27,676	–	(97,823)	(124,554)	–	(150,055)
Accumulated depreciation	(581)	1,863	–	1,404	–	–	2,686
Transfers from investment properties (Note b)							
Cost	99,226	45,921	–	–	–	–	145,147
Accumulated depreciation	(2,133)	(10,708)	–	–	–	–	(12,841)
Disposals/write-off/expiry							
Cost	–	–	(15,904)	–	–	(89,469)	(105,373)
Accumulated depreciation	–	–	15,630	–	–	89,469	105,099
Depreciation charge	(17,542)	(29,233)	(46,169)	–	–	(99,376)	(192,320)
Exchange adjustments	(1)	1,487	648	–	–	213	2,347
Closing net book amount	1,249,776	735,224	72,385	–	–	145,885	2,203,270
As at 31 December 2025							
Cost	1,535,393	1,209,082	1,010,499	–	–	373,465	4,128,439
Accumulated depreciation	(285,617)	(473,858)	(938,114)	–	–	(227,580)	(1,925,169)
Net book amount	1,249,776	735,224	72,385	–	–	145,885	2,203,270

Note a: Upon completion of the redevelopment project in West Point in January 2025, the Group transferred the commercial floors retained for its own use from "property under development" to "leasehold land", "bank premises" and "investment properties" (Note 26) respectively.

Note b: During the year ended 31 December 2025, lease contracts for certain investment properties expired. As the Group has repurposed these properties for its own use, their carrying amount has been transferred from "investment properties" (Note 26) to "properties and equipment".

As at 31 December 2025, interests in freehold land outside Hong Kong amounted to HK$34,506,000 (2024: HK$33,385,000) are included as "bank premises" above.

(All amounts in HK dollar thousands unless otherwise stated)

26 INVESTMENT PROPERTIES

	Leasehold land	Buildings	Total
As at 1 January 2024			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	(13,867)	(62,220)	(76,087)
Net book amount	711,438	273,446	984,884
Year ended 31 December 2024			
Opening net book amount	711,438	273,446	984,884
Depreciation charge	(865)	(8,028)	(8,893)
Closing net book amount	710,573	265,418	975,991
As at 31 December 2024			
Cost	725,305	335,666	1,060,971
Accumulated depreciation	(14,732)	(70,248)	(84,980)
Net book amount	710,573	265,418	975,991
Year ended 31 December 2025			
Opening net book amount	**710,573**	**265,418**	**975,991**
Transfers to properties and equipment (Note 25)			
Cost	**(99,226)**	**(45,921)**	**(145,147)**
Accumulated depreciation	**2,133**	**10,708**	**12,841**
Transfers from properties and equipment (Note 25)			
Cost	**53,177**	**96,878**	**150,055**
Accumulated depreciation	**(823)**	**(1,863)**	**(2,686)**
Depreciation charge	**(865)**	**(8,028)**	**(8,893)**
Closing net book amount	**664,969**	**317,192**	**982,161**
As at 31 December 2025			
Cost	**679,256**	**386,623**	**1,065,879**
Accumulated depreciation	**(14,287)**	**(69,431)**	**(83,718)**
Net book amount	**664,969**	**317,192**	**982,161**

(a) Fair value measurement of investment properties

As at 31 December 2025, the Group's investment properties were valued at HK$1,713,500,000 (2024: HK$2,024,500,000) by an independent firm, Cushman & Wakefield Limited, which 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 based on income capitalisation approach.

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$16,000 (2024: HK$20,000) to HK$48,000 (2024: HK$55,000) 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 2025 and 2024.

(All amounts in HK dollar thousands unless otherwise stated)

26 INVESTMENT PROPERTIES (CONTINUED)

(b) Information about Level 3 fair value measurement

	Valuation technique(s)	Unobservable input(s)	Range 2025	Range 2024
Investment properties	Income capitalisation approach	Market yields	**3.375–3.5%**	3.125–3.25%
		Market rental	**HK$46 to HK$134 per square foot**	HK$53 to HK$144 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:

	2025	2024
Not later than 1 year	**37,250**	49,437
1 to 2 years	**26,266**	33,583
2 to 5 years	**42,517**	64,198
	106,033	147,218

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.

(All amounts in HK dollar thousands unless otherwise stated)

27 INTANGIBLE ASSETS

	Trading Right	Computer Software	Total
As at 1 January 2024			
Cost	4,570	40,701	45,271
Accumulated amortization	(1,951)	(3,267)	(5,218)
Net book amount	2,619	37,434	40,053
Year ended 31 December 2024			
Opening net book amount	2,619	37,434	40,053
Additions	–	53,757	53,757
Amortization	–	(16,763)	(16,763)
Exchange adjustments	–	(66)	(66)
Closing net book amount	2,619	74,362	76,981
As at 31 December 2024			
Cost	**4,570**	**94,381**	**98,951**
Accumulated amortization	**(1,951)**	**(20,019)**	**(21,970)**
Net book amount	**2,619**	**74,362**	**76,981**
Year ended 31 December 2025			
Opening net book amount	**2,619**	**74,362**	**76,981**
Additions	**–**	**21,105**	**21,105**
Amortization	**–**	**(25,583)**	**(25,583)**
Exchange adjustments	**–**	**145**	**145**
Closing net book amount	**2,619**	**70,029**	**72,648**
As at 31 December 2025			
Cost	**4,570**	**115,674**	**120,244**
Accumulated amortization	**(1,951)**	**(45,645)**	**(47,596)**
Net book amount	**2,619**	**70,029**	**72,648**

(All amounts in HK dollar thousands unless otherwise stated)

28 OTHER ASSETS

	2025	2024
Accounts receivable and prepayments	836,331	1,324,373
Interest receivable	1,450,920	1,255,328
Others	327,362	363,803
	2,614,613	2,943,504
Less: credit impairment allowances		
– Stage 1	(3,726)	(2,996)
– Stage 3	(145,937)	(40,764)
	2,464,950	2,899,744

29 DEPOSITS FROM CUSTOMERS

	2025	2024
Demand deposits and current accounts	14,783,979	12,992,850
Savings deposits	39,074,646	36,907,811
Time, call and notice deposits	120,885,265	127,136,558
Deposits from Hong Kong Government Exchange Fund	389,125	388,183
	175,133,015	177,425,402

(All amounts in HK dollar thousands unless otherwise stated)

30 SUBORDINATED DEBTS

	2025	2024
US$350 million fixed rate subordinated notes issued due 2033 at amortized cost	**2,702,108**	2,692,532

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 Banking (Capital) Rules ("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 Hong Kong Monetary Authority, 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

	2025	2024
Accounts payable and accruals	**1,021,411**	698,564
Deferred income	**93,699**	86,920
Interest payable	**714,152**	1,082,769
Lease liabilities (Note 35)	**151,515**	206,204
Insurance contract liabilities (Note a)	**89,715**	90,632
Property sales contract liabilities (Note b)	**15,546**	462,591
Margin deposits	**301,088**	268,392
Credit impairment allowances for undrawn commitments and financial guarantee contracts:		
– Stage 1 and Stage 2	**66,380**	16,512
– Stage 3	**–**	29,166
Others	**674,244**	797,854
	3,127,750	3,739,604

Note a: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK$5,049,000 (2024: HK$7,639,000) are included in "Others" in Note 28.

Note b: The Group completed the redevelopment project in West Point in January 2025 and handed over the sold residential units to the buyers. Deposits were received from the buyers based on payment schedules established in contracts. Such deposits received are recognized as contract liabilities until the Group satisfies its performance obligations by transferring the control of the residential units to the buyers, at which time the contract liabilities are recognized as income. At as 31 December 2025, carried-forward contract liabilities amounted to HK$462,591,000 (2024: Nil) were recognized as income (Note 9). All of the deposits are expected to be recognized as revenue within one year.

(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 losses/(gains) on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2024	357,091	(49,717)	88,864	36,661	432,899
Credited/(charged) to the statement of profit or loss (Note a)	405,200	5,763	–	(18,984)	391,979
Exchange adjustments	(2,528)	144	–	(173)	(2,557)
Charged to other comprehensive income	–	–	(72,662)	–	(72,662)
Reclassified (to)/from deferred income tax liabilities	(2)	–	(29)	66	35
As at 31 December 2024 and 1 January 2025	**759,761**	**(43,810)**	**16,173**	**17,570**	**749,694**
Credited to the statement of profit or loss (Note a)	**306,133**	**5,985**	**–**	**127,383**	**439,501**
Exchange adjustments	**3,301**	**–**	**–**	**(147)**	**3,154**
Charged to other comprehensive income	**–**	**–**	**(142,408)**	**–**	**(142,408)**
Reclassified from/(to) deferred income tax liabilities	**996**	**(724)**	**100**	**128**	**500**
As at 31 December 2025	**1,070,191**	**(38,549)**	**(126,135)**	**144,934**	**1,050,441**

Deferred income tax liabilities	Credit impairment allowances	Accelerated tax depreciation	Fair value losses/(gains) on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2024	365	(19,617)	–	10,251	(9,001)
(Charged)/credited to the statement of profit or loss (Note a)	(11)	(1,861)	–	652	(1,220)
Exchange adjustments	(7)	16	–	–	9
Reclassified from/(to) deferred income tax assets	2	–	29	(66)	(35)
As at 31 December 2024 and 1 January 2025	**349**	**(21,462)**	**29**	**10,837**	**(10,247)**
Credited/(charged) to the statement of profit or loss (Note a)	**611**	**(1,614)**	**–**	**501**	**(502)**
Exchange adjustments	**38**	**(55)**	**–**	**–**	**(17)**
Credited to other comprehensive income	**–**	**–**	**71**	**–**	**71**
Reclassified (to)/from deferred income tax assets	**(996)**	**724**	**(100)**	**(128)**	**(500)**
As at 31 December 2025	**2**	**(22,407)**	**–**	**11,210**	**(11,195)**

Note a: Total deferred income tax credited/(charged) to the statement of profit or loss arising from:

	2025	2024
Deferred income tax assets	**439,501**	391,979
Deferred income tax liabilities	**(502)**	(1,220)
Total deferred income tax (Note 14)	**438,999**	390,759

(All amounts in HK dollar thousands unless otherwise stated)

33 SHARE CAPITAL

	2025	2024
Issued and fully paid: 20,000,000 shares	**2,000,000**	2,000,000

34 RESERVES ATTRIBUTABLE TO EQUITY HOLDERS

	Regulatory reserve (Note a)	Investment revaluation reserve (Note b)	General and other reserves (Note c)	Total
As at 1 January 2024	934,316	878,438	7,163,719	8,976,473
Net change in fair value of investment securities at fair value through other comprehensive income (Note d)	–	1,701,162	–	1,701,162
Currency translation difference arising from operations outside Hong Kong	(2,544)	–	(30,438)	(32,982)
Share of reserves of associates and joint venture	–	2,065	398	2,463
As at 31 December 2024 and 1 January 2025	**931,772**	**2,581,665**	**7,133,679**	**10,647,116**
Net change in fair value of investment securities at fair value through other comprehensive income (Note d)	**–**	**1,361,462**	**–**	**1,361,462**
Currency translation difference arising from operations outside Hong Kong	**3,423**	**–**	**42,013**	**45,436**
Share of reserves of associates and joint venture	**–**	**1,592**	**547**	**2,139**
As at 31 December 2025	**935,195**	**3,944,719**	**7,176,239**	**12,056,153**

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 branches' respective locations 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 2025, the regulatory reserves for operations in and outside Hong Kong were HK$812,455,000 (2024: HK$812,455,000) and HK$122,740,000 (2024: HK$119,317,000) 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 derecognized 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 operations outside Hong Kong 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 2025, net change in fair value of investment securities at fair value through other comprehensive income was a gain of HK$1,361,462,000 (2024: gain of HK$1,701,162,000) due to the net increase in fair value of HK$662,421,000 (2024: net increase in fair value of HK$1,292,516,000) on equities holdings and HK$699,041,000 (2024: net increase of HK$408,646,000) from debt securities portfolio. As at 31 December 2025, the debt securities at fair value through other comprehensive income had 99.5% (31 December 2024: 98.0%) 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 83% (31 December 2024: 90%) of the portfolio maturing within 3 years.

(All amounts in HK dollar thousands unless otherwise stated)

35 OTHER CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

	Subordinated debts	
	2025	2024
As at 1 January	2,692,532	5,041,686
Cash outflow for redemption of subordinated debts	–	(2,346,945)
Non-cash changes:		
– Foreign exchange movement	6,531	(14,027)
– Amortization of discount and issuance cost	3,045	11,818
As at 31 December	2,702,108	2,692,532

	Lease liabilities	
	2025	2024
As at 1 January	206,204	224,732
Payment of lease liabilities	(95,785)	(100,202)
Non-cash changes:		
– Additions	31,803	71,437
– Other changes	9,293	10,237
As at 31 December	151,515	206,204

(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:

Contract amounts	2025	2024
Direct credit substitutes	1,278,480	1,543,658
Trade-related contingencies	1,006,585	1,296,331
Forward forward deposits placed	537,067	216,545
Other commitments with an original maturity of:		
– under 1 year	2,592,239	2,232,294
– 1 year and over	2,768,528	3,364,907
– unconditionally cancellable	23,578,082	27,759,238
	31,760,981	36,412,973

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

	2025	2024
No later than 1 year	28,848,197	33,445,629
Later than 1 year and no later than 5 years	1,521,160	1,329,029
Later than 5 years	1,391,624	1,638,315
	31,760,981	36,412,973

	2025	2024
Credit risk weighted amounts	4,598,445	2,908,698

(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:

	2025	2024
Contracted but not provided for	77,939	84,524

(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.

(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 2025	Gross amounts of recognized financial assets	Gross amounts of recognized 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: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral received	Net amounts
Assets						
Derivative financial instruments	470,065	–	470,065	(348,844)	(70,651)	50,570
Other assets	312,169	(312,064)	105	–	–	105
Total	782,234	(312,064)	470,170	(348,844)	(70,651)	50,675

	Gross amounts of recognized financial liabilities	Gross amounts of recognized 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: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral pledged	Net amounts
Liabilities						
Derivative financial instruments	479,230	–	479,230	(348,844)	(109,138)	21,248
Other liabilities	340,930	(312,064)	28,866	–	–	28,866
Total	820,160	(312,064)	508,096	(348,844)	(109,138)	50,114

(All amounts in HK dollar thousands unless otherwise stated)

37 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2024

	Gross amounts of recognized financial assets	Gross amounts of recognized 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	
Assets						
Derivative financial instruments	420,544	–	420,544	(329,737)	(67,399)	23,408
Other assets	338,350	(209,609)	128,741	–	–	128,741
Total	758,894	(209,609)	549,285	(329,737)	(67,399)	152,149

	Gross amounts of recognized financial liabilities	Gross amounts of recognized 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	
Liabilities						
Derivative financial instruments	491,974	–	491,974	(329,737)	(138,891)	23,346
Other liabilities	216,708	(209,609)	7,099	–	–	7,099
Total	708,682	(209,609)	499,073	(329,737)	(138,891)	30,445

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.

(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.

	2025	2024
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	470,065	420,544
Derivative financial instruments not in scope of offsetting disclosures	29,884	84,597
Total derivative financial instruments	499,949	505,141
Net amounts of other assets after offsetting as stated above	105	128,741
Other assets not in scope of offsetting disclosures	2,464,845	2,771,003
Total other assets	2,464,950	2,899,744
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	479,230	491,974
Derivative financial instruments not in scope of offsetting disclosures	21,239	4,612
Total derivative financial instruments	500,469	496,586
Net amounts of other liabilities after offsetting as stated above	28,866	7,099
Other liabilities not in scope of offsetting disclosures	3,098,884	3,732,505
Total other liabilities	3,127,750	3,739,604

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	
	2025	2024	2025	2024
Aggregate amount outstanding in respect of principal and interest	1,370,649	1,185,141	1,546,871	1,225,208

(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:

2025	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	–	–	24,308	–	24,308
– Cash and balances with banks	28,541	–	–	87,918	116,459
– Deposits and balances from banks and customers	288,914	248,575	434,997	608,914	1,581,400
– Investment securities at fair value through other comprehensive income	114,382	–	–	–	114,382
– Stage 1 and Stage 2 credit impairment allowances	10	–	32	1	43
– Contingent liabilities and other commitments	423	–	38,193	–	38,616
Interest income received from related parties	2,524	–	865	3,134	6,523
Interest expenses paid to related parties	10,553	5,484	8,111	11,037	35,185
Net fee and commission (expense)/income (to)/from related parties	(20,749)	97,395	–	(275)	76,371
Net other operating income/(expense) from/(to) related parties	28	(4,529)	3,015	–	(1,486)

(All amounts in HK dollar thousands unless otherwise stated)

39 RELATED PARTY TRANSACTIONS (CONTINUED)

2024	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	–	–	28,036	–	28,036
– Cash and balances with banks	23,455	–	–	89,767	113,222
– Deposits and balances from banks and customers	227,434	387,846	433,970	760,579	1,809,829
– Investment securities at fair value through other comprehensive income	106,654	–	–	–	106,654
– Stage 1 and Stage 2 credit impairment allowances	1	–	39	2	42
– Contingent liabilities and other commitments	268	2,000	43,178	–	45,446
Interest income received from related parties	803	–	1,981	5,885	8,669
Interest expenses paid to related parties	11,190	21,830	14,912	40,431	88,363
Net fee and commission (expense)/income (to)/from related parties	(23,032)	66,551	2	(2,007)	41,514
Net other operating income/(expense) from/(to) related parties	29	(4,403)	(275)	–	(4,649)

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.

Directors and key management personnel compensation

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

	2025	2024
Salaries and other short-term employee benefits	130,466	105,918

(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	
	2025	2024
ASSETS		
Cash and balances with banks	37,644,023	58,560,524
Placements with and advances to banks	41,142,419	26,106,090
Loans and advances to customers	67,275,776	75,426,755
Financial assets at fair value through profit or loss	121,026	167,093
Derivative financial instruments	499,949	505,141
Investment securities at fair value through other comprehensive income	68,067,222	53,257,543
Investment securities at amortized cost	4,739,101	4,892,137
Investments in associates and joint venture	43,000	43,000
Investments in and net amounts due from subsidiaries	1,405,382	2,299,926
Properties and equipment	1,610,995	1,586,992
Investment properties	834,792	1,003,852
Intangible assets	101,110	96,574
Current income tax assets	243,544	43,736
Deferred income tax assets	1,055,857	752,117
Assets held for sale	–	145,000
Other assets	2,304,407	2,357,958
TOTAL ASSETS	227,088,603	227,244,438
LIABILITIES		
Deposits and balances from banks	4,866,038	4,690,900
Deposits from customers	175,133,015	177,425,402
Derivative financial instruments	500,469	496,586
Subordinated debts	2,702,108	2,692,532
Other liabilities	2,767,255	3,183,136
Current income tax liabilities	118,763	134,214
Deferred income tax liabilities	–	421
TOTAL LIABILITIES	186,087,648	188,623,191
EQUITY		
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		
Share capital	2,000,000	2,000,000
Retained earnings	26,966,097	25,993,500
Reserves	12,034,858	10,627,747
	41,000,955	38,621,247
TOTAL EQUITY AND LIABILITIES	227,088,603	227,244,438

Approved and authorized for issue by the Board of Directors on 25 February 2026.

Stephen Ching Yen LEE
Chairman

John Con-sing YUNG
Director

Gordon Che Keung KWONG
Director

Charles Chi Man MA
Director

(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 2024	934,316	863,627	7,161,560	8,959,503
Net change in fair value of investment securities at fair value through other comprehensive income	–	1,701,248	–	1,701,248
Currency translation difference arising from operations outside Hong Kong	(2,544)	–	(30,460)	(33,004)
As at 31 December 2024 and 1 January 2025	**931,772**	**2,564,875**	**7,131,100**	**10,627,747**
Net change in fair value of investment securities at fair value through other comprehensive income	**–**	**1,361,664**	**–**	**1,361,664**
Currency translation difference arising from operations outside Hong Kong	**3,423**	**–**	**42,024**	**45,447**
As at 31 December 2025	**935,195**	**3,926,539**	**7,173,124**	**12,034,858**

41 COMPARATIVE FIGURES

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

(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 2025	30 September 2025	30 June 2025	31 March 2025	31 December 2024
Regulatory capital (amount)						
1 & 1a	Common Equity Tier 1 (CET1)	36,604,045	36,120,469	35,914,608	35,785,873	34,677,399
2 & 2a	Tier 1	36,604,045	36,120,469	35,914,608	35,785,873	34,677,399
3 & 3a	Total capital	40,776,278	40,293,773	40,143,946	39,721,502	38,593,247
Risk Weighted Amounts (RWA)						
4	Total RWA	134,102,176	135,517,581	139,971,549	143,290,035	138,045,799
4a	Total RWA (pre-floor)	134,102,176	135,517,581	139,971,549	143,290,035	N/A
Risk-based regulatory capital ratios (as a percentage of RWA)						
5 & 5a	CET1 ratio (%)	27.3%	26.7%	25.7%	25.0%	25.1%
5b	CET1 ratio (%) (pre-floor ratio)	27.3%	26.7%	25.7%	25.0%	N/A
6 & 6a	Tier 1 ratio (%)	27.3%	26.7%	25.7%	25.0%	25.1%
6b	Tier 1 ratio (%) (pre-floor ratio)	27.3%	26.7%	25.7%	25.0%	N/A
7 & 7a	Total capital ratio (%)	30.4%	29.7%	28.7%	27.7%	28.0%
7b	Total capital ratio (%) (pre-floor ratio)	30.4%	29.7%	28.7%	27.7%	N/A
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.34%	0.33%	0.33%	0.32%	0.34%
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 (%)	2.8%	2.8%	2.8%	2.8%	2.8%
12	CET1 available after meeting the AI's minimum capital requirements (%)	21.3%	20.7%	19.7%	19.0%	19.1%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	230,451,324	233,365,846	232,639,558	235,198,481	231,925,255
13a	LR exposure measure based on mean values of gross assets of SFTs	230,606,759	232,574,542	232,661,536	235,277,888	N/A
14, 14a & 14b	LR (%)	15.9%	15.5%	15.4%	15.2%	15.0%
14c & 14d	LR (%) based on mean values of gross assets of SFTs	15.9%	15.5%	15.4%	15.2%	N/A
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
	Applicable to category 1 institutions 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 institutions only:					
17a	LMR (%)	83.7%	82.3%	76.5%	76.5%	76.8%
Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)						
	Applicable to category 1 institutions 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 institutions only:					
20a	CFR (%)	282.6%	308.4%	295.6%	303.7%	295.9%

(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 2025 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 branches outside Hong Kong, 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 Group uses the standardized (credit risk) approach, standardized (market risk) approach, revised standardized approach and reduced basic CVA approach under BCR for credit risk, market risk, operational risk and CVA risk respectively. 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.

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 2025.

Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements as at 31 December 2025	Under regulatory scope of consolidation as at 31 December 2025	Cross-referenced to Composition of Regulatory Capital
Assets			
Cash and balances with banks	37,645,746	37,644,023	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(722)	(1)
Placements with and advances to banks	41,142,419	41,142,419	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(805)	(2)
Loans and advances to customers	67,275,776	67,275,776	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(711,869)	(3)
Financial assets at fair value through profit or loss	155,272	121,026	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold	–	5,319	(4)
Derivative financial instruments	499,949	499,949	
Investment securities at fair value through other comprehensive income	68,326,253	68,067,222	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold	–	1,662,292	(5)
Investment securities at amortized cost	4,739,101	4,739,101	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(35)	(6)
Properties for sale	336,511	336,511	
Investments in associates and joint venture	365,679	43,000	
Investments in and amounts due from subsidiaries	–	302,777	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(34,774)	(7)
Properties and equipment	2,203,270	2,203,270	
Investment properties	982,161	982,161	
Intangible assets	72,648	101,110	(8)
Current income tax assets	243,544	243,544	
Deferred income tax assets	1,050,441	1,055,858	(9)
Other assets	2,464,950	2,332,081	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(2,978)	(10)
Total assets	**227,503,720**	**227,089,828**	

(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 as at 31 December 2025	Under regulatory scope of consolidation as at 31 December 2025	Cross-referenced to Composition of Regulatory Capital
Liabilities			
Deposits and balances from banks	4,866,038	4,866,038	
Deposits from customers	175,133,015	175,133,015	
Derivative financial instruments	500,469	500,469	
Amounts due to subsidiaries	–	468,290	
Subordinated debts	2,702,108	2,702,108	(11)
Other liabilities	3,127,750	2,921,760	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	66,380	(12)
Current income tax liabilities	127,201	120,223	
Deferred income tax liabilities	11,195	11,150	
Total liabilities	**186,467,776**	**186,723,053**	
Equity			
Share capital	2,000,000	2,000,000	(13)
Retained earnings	26,846,121	26,331,929	(14)
Reserves	12,056,153	12,034,846	
of which: accumulated other comprehensive income/(loss), other than regulatory reserve	–	11,099,651	(15)
regulatory reserve	–	935,195	(16)
Non-controlling interests in equity	133,670	–	
Total equity	**41,035,944**	**40,366,775**	
Total equity and liabilities	**227,503,720**	**227,089,828**	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital

The Composition of Regulatory Capital as at 31 December 2025 is shown below:

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(13)
2	Retained earnings	26,331,929	(14)
3	Disclosed reserves	12,034,846	(15) + (16)
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	**CET1 capital before regulatory deductions**	**40,366,775**	
CET1 capital: regulatory deductions			
7	Valuation adjustments	2,956	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	101,110	(8)
10	Deferred tax assets (net of associated deferred tax liabilities)	1,055,858	(9)
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)	1,667,611	(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	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable

(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	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	935,195	
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	935,195	(16)
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	**Total regulatory deductions to CET1 capital**	**3,762,730**	
29	**CET1 capital**	**36,604,045**	
AT1 capital: instruments			
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	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
36	**AT1 capital before regulatory deductions**	**–**	
AT1 capital: regulatory deductions			
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	**Total regulatory deductions to AT1 capital**	**–**	
44	**AT1 capital**	**–**	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**36,604,045**	

(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
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	2,702,108	(11)
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)	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,470,125	
51	**Tier 2 capital before regulatory deductions**	**4,172,233**	
Tier 2 capital: regulatory deductions			
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 BCR §48(1)(g)	–	
57	**Total regulatory adjustments to Tier 2 capital**	**–**	
58	**Tier 2 capital (T2)**	**4,172,233**	
59	**Total regulatory capital (TC = T1 + T2)**	**40,776,278**	
60	**Total RWA**	**134,102,176**	

(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
Capital ratios (as a percentage of RWA)			
61	**CET1 capital ratio**	**27.3%**	
62	**Tier 1 capital ratio**	**27.3%**	
63	**Total capital ratio**	**30.4%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**2.8%**	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	0.34%	
67	of which: higher loss absorbency requirement	–	
68	**CET1 (as a percentage of RWA) available after meeting minimum capital requirements**	**21.3%**	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
Amounts below the thresholds for deduction (before risk weighting)			
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	3,827,166	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	489,487	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
Applicable caps on the inclusion of provisions in Tier 2 capital			
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)	1,752,758	(12) + (16) – (1) – (2) – (3) – (6) – (7) – (10)
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	1,470,125	
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	–	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

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:

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets ("DTA") (net of associated deferred tax liabilities)</td><td>1,055,858</td><td>–</td></tr>
<tr><td colspan="3">Explanation
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.</td></tr>
<tr><td colspan="4">Remarks:
The amount of the 10% threshold and 5% 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.</td></tr>
</table>

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 31 December 2025 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/20251231.jsp

		Ordinary shares	Subordinated notes due 2033
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	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.
	Regulatory treatment		
4	Transitional Basel III rules	N/A	N/A
5	Basel III rules	Common Equity Tier 1	Tier 2
6	Eligible at solo*/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
8	Amount recognized in regulatory capital (currency in millions, as of most recent reporting date)	HK$2,000 million	HK$2,702 million
9	Par value of instrument	N/A	US$350 million
10	Accounting classification	Shareholders' equity	Liability-amortized cost
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000	28 February 2023
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	28 February 2033
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	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
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Fixed

(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 2033
18	Coupon rate and any related index	N/A	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
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	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.
32	If write-down, full or partial	N/A	May be in part or in full

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2033
33	If write-down, permanent or temporary	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	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	The rights of the holders will, in the event of the winding up of the Bank, rank (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; (ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and (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.
36	Non-compliant transitioned features	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A

Footnote:

* Include solo-consolidated

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 10 of Regulatory Disclosures and Note 3.2 of Notes to the Consolidated Financial Statements
– Operational risk	– Note 11 of Regulatory Disclosures and Note 3.6 of Notes to the Consolidated Financial Statements
– Liquidity risk	– Note 12 of Regulatory Disclosures and Note 3.3 of Notes to the Consolidated Financial Statements
– Interest rate risk in the banking book	– Note 13 of Regulatory Disclosures and Note 3.2.5 of Notes to the Consolidated Financial Statements

Risk culture

The Group has long recognized 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. A Bank Culture Task Force has been established to recommend and implement necessary enhancement initiatives on bank culture, promoting the Group's corporate values and fostering a positive bank culture. 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.

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, operational risk, liquidity risk and interest rate risk in the banking book exposures are provided in Note 7(a), Note 10(a), Note 11(a), Note 12 and Note 13 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 branches outside Hong Kong 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, in addition to establishing a liquidity cushion, the Group utilizes results from stress-testing and reverse stress-testing to enhance 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.

The Group employs operational risk transfer mechanisms, specifically insurance, to mitigate the risk of low-frequency-high-impact potential events. The insurance policies of the Group (which include crime insurance, professional indemnity insurance and directors, officer's liability insurance, etc.) are subject to annual review, or whenever necessary, by the General Insurance Department and the Operational Risk Management Department ("ORMD"), with final approval by the Compliance and Operational Risk Management Committee ("CORMC").

Risks related to outsourcing are managed by the units that outsource a function, process or a service. The Compliance Department has established Guidelines on Outsourcing and Insourcing to assist the Group in complying with the applicable regulatory requirements. The ORMD coordinates with the relevant outsourcing owners to ensure annual assessment of all outsourcing activities are being performed.

(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 2025 and 30 September 2025 and the minimum capital requirements as at 31 December 2025 which are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		31 December 2025	30 September 2025	31 December 2025
1	Credit risk for non-securitization exposures	106,187,316	107,812,361	8,494,985
2	Of which STC approach	106,187,316	107,812,361	8,494,985
2a	Of which BSC approach	–	–	–
3	Of which foundation IRB approach	–	–	–
4	Of which supervisory slotting criteria approach	–	–	–
5	Of which advanced IRB approach	–	–	–
5a	Of which retail IRB approach	–	–	–
5b	Of which specific risk-weight approach	–	–	–
6	Counterparty credit risk and default fund contributions	613,013	650,828	49,041
7	Of which SA-CCR approach	613,013	650,828	49,041
7a	Of which CEM	–	–	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	Credit valuation adjustment ("CVA") risk	363,263	405,488	29,061
11	Equity positions in banking book under the simple risk-weight method and internal models method	N/A	N/A	N/A
12	Collective investment scheme ("CIS") exposures – look-through approach/third-party approach	–	–	–
13	CIS exposures – mandate-based approach	–	–	–
14	CIS exposures – fall-back approach	–	–	–
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	7,217,475	6,547,625	577,398
21	Of which STM approach	7,217,475	6,547,625	577,398
22	Of which IMA	–	–	–
22a	Of which SSTM approach	–	–	–
23	Capital charge for moving exposures between trading book and banking book	–	–	–
24	Operational risk	8,911,463	8,591,738	712,917
24a	Sovereign concentration risk	–	–	–
25	Amounts below the thresholds for deduction (subject to 250% RW)	10,809,646	11,509,541	864,772
26	Output floor level applied	N/A	N/A	N/A
27	Floor adjustment (before application of transitional cap)	N/A	N/A	N/A
28	Floor adjustment (after application of transitional cap)	N/A	N/A	N/A
28a	Deduction to RWA	–	–	–
28b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	–	–	–
28c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	–	–	–
29	**Total**	134,102,176	135,517,581	10,728,174

(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 securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with banks	37,645,746	37,644,023	37,644,023	–	–	–	–
Placements with and advances to banks	41,142,419	41,142,419	41,142,419	–	–	–	–
Loans and advances to customers	67,275,776	67,275,776	67,275,776	–	–	–	–
Financial assets at fair value through profit or loss	155,272	121,026	12,206	–	–	103,501	5,319
Derivative financial instruments	499,949	499,949	–	499,949	–	499,949	–
Investment securities at fair value through other comprehensive income	68,326,253	68,067,222	66,404,930	–	–	–	1,662,292
Investment securities at amortized cost	4,739,101	4,739,101	4,739,101	–	–	–	–
Properties for sale	336,511	336,511	336,511	–	–	–	–
Investments in associates and joint venture	365,679	43,000	43,000	–	–	–	–
Investments in and amounts due from subsidiaries	–	302,777	302,777	–	–	–	–
Properties and equipment	2,203,270	2,203,270	2,203,270	–	–	–	–
Investment properties	982,161	982,161	982,161	–	–	–	–
Intangible assets	72,648	101,110	–	–	–	–	101,110
Current income tax assets	243,544	243,544	243,544	–	–	–	–
Deferred income tax assets	1,050,441	1,055,858	–	–	–	–	1,055,858
Other assets	2,464,950	2,332,081	2,332,081	–	–	–	–
Total assets	**227,503,720**	**227,089,828**	**223,661,799**	**499,949**	**–**	**603,450**	**2,824,579**
Liabilities							
Deposits and balances from banks	4,866,038	4,866,038	–	–	–	–	4,866,038
Deposits from customers	175,133,015	175,133,015	–	–	–	–	175,133,015
Derivative financial instruments	500,469	500,469	–	500,469	–	500,469	–
Amounts due to subsidiaries	–	468,290	–	–	–	–	468,290
Subordinated debts	2,702,108	2,702,108	–	–	–	–	2,702,108
Other liabilities	3,127,750	2,921,760	–	–	–	–	2,921,760
Current income tax liabilities	127,201	120,223	–	–	–	–	120,223
Deferred income tax liabilities	11,195	11,150	–	–	–	–	11,150
Total liabilities	**186,467,776**	**186,723,053**	**–**	**500,469**	**–**	**500,469**	**186,222,584**

(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	securitization framework	counterparty credit risk framework	market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per Regulatory Disclosures Note 4(a))	224,265,249	223,661,799	–	499,949	603,450
Liabilities carrying value amount under regulatory scope of consolidation (as per Regulatory Disclosures Note 4(a))	500,469	–	–	500,469	500,469
Total net amount under regulatory scope of consolidation	223,764,780	223,661,799	–	(520)	102,981
Off-balance sheet amounts	31,760,981	6,518,979	–	–	–
Differences due to consideration of provisions	751,184	751,184	–	–	–
Difference due to potential exposures for counterparty risk	958,724	–	–	958,724	–
Difference due to replacement cost for counterparty risk	198,941	–	–	198,941	–
Other differences	8,952	8,952	–	–	–
Exposure amounts considered for regulatory purposes	257,443,562	230,940,914	–	1,157,145	102,981

(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 authorized 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.

The insurance subsidiary of the Bank is not included in the consolidated scope for the calculation of regulatory capital positions. The aggregate amount of investments in the insurance subsidiary, together with other capital investments in subsidiaries, associates and joint venture of the Bank that exceed 10 % of the Bank's CET1 capital, is deducted from the Bank's CET1 capital. Any surplus capital in the insurance subsidiary is not recognized when calculating the Bank's capital adequacy.

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.

4 Linkages between financial statements and regulatory exposures (Continued)

(c) Explanations of differences between accounting and regulatory exposure amount (Continued)

Basis of consolidation (Continued)

The Group uses the standardized (credit risk) approach, standardized (market risk) approach, revised standardized approach and reduced basic CVA approach under BCR to calculate regulatory capital or capital charge for credit risk, market risk, operational risk and CVA risk respectively. During the reporting period, the Group did not have any securitization 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 standardized 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.

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, the Asset and Liability Committee and the 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.

(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 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.

(d) Prudent valuation adjustments

As at 31 December 2025, 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 debt securities of straight bonds that did not contain any complex features.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		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:	–	–	2,956	–	–	**2,956**	2,956	–
2	Mid-market value	–	–	–	–	–	**–**	–	–
3	Close-out costs	–	–	2,956	–	–	**2,956**	2,956	–
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	**Total adjustments**	**–**	**–**	**2,956**	**–**	**–**	**2,956**	**2,956**	**–**

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 2025.

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio	AI-specific CCyB ratio (%)	CCyB amount
		%	HK$'000	%	HK$'000
1	Hong Kong SAR	0.50%	50,038,417		
2	Australia	1.00%	910,534		
3	Belgium	1.00%	4,571		
4	Chile	0.50%	55		
5	France	1.00%	89		
6	Germany	0.75%	66		
7	Ireland	1.50%	93,585		
8	Netherlands	2.00%	11,268		
9	Norway	2.50%	2		
10	South Korea	1.00%	62,392		
11	Spain	0.50%	8		
12	Sweden	2.00%	2		
13	United Kingdom	2.00%	350,436		
	Sum		**51,471,425**		
	Total		**79,917,728**	**0.34%**	**455,947**

(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 2025.

Item		Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	229,271,051
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(413,892)
3	Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference	–
4	Adjustments for temporary exemption of central bank reserves	Not applicable
5	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	–
7	Adjustments for eligible cash pooling transactions	–
8	Adjustments for derivative contracts	605,247
9	Adjustment for SFTs (i.e. repos and similar secured lending)	–
10	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	6,518,979
11	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from LR exposure measure	(1,767,331)
12	Other adjustments	(3,762,730)
13	**Leverage ratio exposure measure**	**230,451,324**

The leverage ratios as at 31 December 2025 and 30 September 2025 are shown below:

		31 December 2025	30 September 2025
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivative contracts and SFTs, but including related on-balance sheet collateral)	228,357,210	229,004,922
2	Gross-up for derivative contracts collateral provided where deducted from balance sheet assets pursuant to the applicable accounting standard	–	–
3	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
4	Less: Adjustment for securities received under SFTs that are recognized as an asset	–	–
5	Less: Specific and collective provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital	(1,700,951)	(1,459,940)
6	Less: Asset amounts deducted in determining Tier 1 capital	(3,762,730)	(3,243,615)
7	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	222,893,529	224,301,367

(All amounts in HK dollar thousands unless otherwise stated)

6 Leverage ratio (Continued)

		31 December 2025	30 September 2025
Exposures arising from derivative contracts			
8	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	118,740	93,767
9	Add-on amounts for PFE associated with all derivative contracts	986,456	1,182,803
10	Less: Exempted CCP leg of client-cleared trade exposures	–	–
11	Adjusted effective notional amount of written credit-related derivative contracts	–	–
12	Less: Permitted reductions in effective notional amount and permitted deductions from add-on amounts for PFE of written credit-related derivative contracts	–	–
13	**Total exposures arising from derivative contracts**	1,105,196	1,276,570
Exposures arising from SFTs			
14	Gross amount of SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	800,000
15	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
16	CCR exposure for SFT assets	–	3,397
17	Agent transaction exposures	–	–
18	**Total exposures arising from SFTs**	–	803,397
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	31,760,981	35,353,612
20	Less: Adjustments for conversion to credit equivalent amounts	(25,242,002)	(28,326,244)
21	Less: Specific and collective provisions associated with off-balance sheet exposures that are deducted from Tier 1 capital	(66,380)	(42,856)
22	**Off-balance sheet items**	6,452,599	6,984,512
Capital and total exposures			
23	**Tier 1 capital**	36,604,045	36,120,469
24	**Total exposures**	230,451,324	233,365,846
Leverage ratio			
25 & 25a	**Leverage ratio**	15.9%	15.5%
26	**Minimum leverage ratio requirement**	3.0%	3.0%
27	**Applicable leverage buffers**	Not applicable	Not applicable
Disclosure of mean values			
28	Mean value of gross assets of SFTs, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	155,435	8,696
29	Quarter-end value of gross amount of SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	–	800,000
30 & 30a	Total exposures based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	230,606,759	232,574,542
31 & 31a	Leverage ratio based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	15.9%	15.5%

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.

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 2025 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 Corporate Credit Administration Department, being the first line of defence to support business units, is responsible for reviewing and ensuring quality of credit applications. The Credit Appraisal Department, Credit Control Department, Special Asset Management Department, Credit Policy & Project Management 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 and periodic credit reviews, Credit Policy & Project Management Department is responsible for formulating and reviewing credit risk policies and guidelines, Credit Control Department is responsible for performing credit control and routine monitoring, also conducting portfolio review, while Special Asset Management Department is responsible for managing classified credit portfolio, including loan collection and recovery. 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.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(b) Credit quality of exposures as at 31 December 2025

		Gross carrying amounts of			Of which ECL accounting provisions for credit losses on STC approach exposures			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
1	Loans	3,956,367	64,835,110	1,515,701	803,832	711,869	–	67,275,776
2	Debt securities	–	67,214,724	35	–	35	–	67,214,689
3	Off-balance sheet exposures	9,973	8,172,926	27,804	–	27,804	–	8,155,095
4	**Total**	**3,966,340**	**140,222,760**	**1,543,540**	**803,832**	**739,708**	**-**	**142,645,560**

(c) Changes in defaulted loans and debt securities

		Amount
1	Defaulted loans and debt securities as at end of the previous reporting period	4,552,062
2	Loans and debt securities that have defaulted since the last reporting period	1,510,096
3	Returned to non-defaulted status	(321,767)
4	Amounts written off	(1,348,946)
5	Other changes*	(435,078)
6	**Defaulted loans and debt securities as at end of the current reporting period**	**3,956,367**

* Other changes include loan repayment and exchange rate difference.

(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 or the borrower meets unlikeliness-to-pay criteria 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 2025, 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).

(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 2025 by industry sector, geographical region and residual maturity

	Total	Impaired exposure	Stage 3 impairment allowances	Amounts written-off
Credit risk exposure – By industry sector				
– Property development	9,995,969	1,327,904	221,358	1,225,728
– Property investment	15,511,597	1,599,343	341,855	123,239
– Banks and financial institutions	47,947,256	4,110	–	–
– International, wholesale and retail trade	9,712,019	609,161	169,458	553,921
– Personal	12,458,953	127,815	1,277	3,134
– Others*	47,019,766	289,429	69,884	393,344
Total	**142,645,560**	**3,957,762**	**803,832**	**2,299,366**
Credit risk exposure – By geographical region				
– Hong Kong	62,172,073	1,291,196	185,220	874,801
– Chinese Mainland	7,844,367	102,891	104,237	715,039
– United States	22,820,106	2,563,632	514,347	709,526
– Others	49,809,014	43	28	–
Total	**142,645,560**	**3,957,762**	**803,832**	**2,299,366**
Credit risk exposure – By residual maturity				
– Repayable on demand	4,776,452			
– Up to 1 month	11,163,892			
– 1–3 months	13,723,906			
– 3–12 months	29,210,876			
– 1–5 years	63,513,297			
– Over 5 years	17,124,510			
– Indefinite	3,132,627			
Total	**142,645,560**			

* 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 2025

	Gross carrying amount
Past due over 3 months but less than 6 months	195,004
Past due over 6 month but less than 1 year	1,111,379
Past due over 1 year	1,989,146
Total	**3,295,529**

(iii) Breakdown of restructured exposures between impaired and non-impaired exposures as at 31 December 2025

	Gross carrying amount of	
	Impaired	Not impaired
Rescheduled loans and advances	1,574	–

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 standardized 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 recognized credit risk mitigant used by the Group include deposits and bank guarantee.

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 recognized 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 (recognized collateral and guarantees for capital calculation) used by the Group are within acceptable levels.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(f) Overview of recognized credit risk mitigation as at 31 December 2025

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	63,101,467	4,174,309	1,033,451	516,450	–
2	Debt securities	67,214,689	–	–	–	–
3	**Total**	**130,316,156**	**4,174,309**	**1,033,451**	**516,450**	**–**
4	Of which defaulted	3,152,535	–	–	–	–

(g) Qualitative disclosures on use of ECAI ratings under STC approach

Under the standardized 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"), recognized 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;
- Multilateral development bank exposures;
- Unspecified multilateral body exposures;
- Eligible covered bond exposures;
- Bank exposures;
- Qualifying non-bank financial institutions exposures;
- General corporate exposures; and
- Specialized lending exposures.

The mapping of ECAI ratings of the above nine 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.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(h) Credit risk exposures and effects of recognized credit risk mitigation – for STC approach as at 31 December 2025

	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	10,924,027	–	10,930,899	–	61	0%
2	Public sector entity exposures	5,403,929	1,250,000	5,913,510	500,000	1,282,702	20%
3	Multilateral development bank exposures	2,420,038	–	2,420,038	–	–	0%
3a	Unspecified multilateral body exposures	–	–	–	–	–	–
4	Bank exposures	112,654,228	2,190,480	112,654,228	1,198,432	27,554,621	24%
4a	Qualifying non-bank financial institution exposures	935,714	389,080	935,714	38,908	477,050	49%
5	Eligible covered bond exposures	–	–	–	–	–	–
6	General corporate exposures	31,369,228	16,746,745	30,872,546	3,085,373	26,392,554	78%
6a	Of which: non-bank financial institution exposures excluding those reported under row 4a	–	–	–	–	–	–
6b	Specialized lending	–	–	–	–	–	–
7	Equity exposures	–	–	–	–	–	–
7a	Significant capital investments in commercial entities	–	–	–	–	–	–
7b	Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities	–	–	–	–	–	–
7c	Subordinated debts issued by banks, qualifying non-bank financial institutions and corporates	–	–	–	–	–	–
8	Retail exposures	2,320,850	6,621,570	1,970,598	730,289	2,292,504	85%
8a	Exposures arising from IPO financing	–	–	–	–	–	–

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(h) Credit risk exposures and effects of recognized credit risk mitigation – for STC approach as at 31 December 2025 (Continued)

	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
9	Real estate exposures	45,508,163	4,518,996	44,804,511	958,518	39,001,566	85%
9a	Of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	6,709,334	1,582,841	6,192,884	633,137	2,163,433	32%
9b	Of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)	831,183	–	831,183	–	323,041	39%
9c	Of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	1,333,914	7,294	1,333,914	2,318	936,391	70%
9d	Of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)	17,499,718	91,350	17,370,496	17,616	15,090,865	87%
9e	Of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	14,045,956	2,733,084	13,995,305	285,029	12,885,795	90%
9f	Of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)	1,257,290	–	1,254,738	–	1,882,107	150%
9g	Of which: land acquisition, development and construction exposures	3,830,768	104,427	3,825,991	20,418	5,719,934	149%
10	Defaulted exposures	3,335,149	44,110	3,335,149	7,459	4,949,864	148%
11	Other exposures	4,115,452	–	4,115,452	–	4,115,452	100%
11a	Cash and gold	765,691	–	1,799,824	–	120,940	7%
11b	Items in the process of clearing or settlement	345,608	–	345,608	–	2	0%
12	**Total**	**220,098,077**	**31,760,981**	**220,098,077**	**6,518,979**	**106,187,316**	**47%**

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by exposure classes and by risk weights – for STC approach as at 31 December 2025

		0%	10%	15%	20%	25%	30%	35%	40%	45%	50%	65%
1	Sovereign exposures	10,930,595			304						-	
2	Public sector entity exposures	-			6,413,510						-	
3	Multilateral development bank exposures	2,420,038					-				-	
3a	Unspecified multilateral body exposures				-		-				-	
4	Bank exposures				72,397,739		38,261,942		-		3,192,979	
4a	Qualifying non-bank financial institution exposures				-		564,258		-		-	
5	Eligible covered bond exposures		-	-	-	-		-			-	
6	General corporate exposures				1,885,048		-				10,678,893	
6a	Of which: non-bank financial institution exposures excluding those reported under row 4a				-		-				-	
6b	Specialized lending				-						-	
7	Equity exposures											
7a	Significant capital investments in commercial entities											
7b	Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities											
7c	Subordinated debts issued by banks, qualifying non-bank financial institutions and corporates											
8	Retail exposures									495,633		
8a	Exposures arising from IPO financing	-										

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by exposure classes and by risk weights – for STC approach as at 31 December 2025 (Continued)

		75%	80%	85%	100%	130%	150%	250%	400%	1250%	Other	Total credit exposure amount (post-CCF and post-CRM)
1	Sovereign exposures				-		-				-	**10,930,899**
2	Public sector entity exposures				-		-				-	**6,413,510**
3	Multilateral development bank exposures				-		-				-	**2,420,038**
3a	Unspecified multilateral body exposures				-		-				-	**-**
4	Bank exposures	-			-		-				-	**113,852,660**
4a	Qualifying non-bank financial institution exposures	410,364			-		-				-	**974,622**
5	Eligible covered bond exposures				-						-	**-**
6	General corporate exposures	1,548,135		2,205,639	17,640,204		-				-	**33,957,919**
6a	Of which: non-bank financial institution exposures excluding those reported under row 4a	-		-	-		-				-	-
6b	Specialized lending	-	-		-	-	-				-	-
7	Equity exposures							-	-		-	-
7a	Significant capital investments in commercial entities							-	-	-	-	-
7b	Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities						-	-	-		-	-
7c	Subordinated debts issued by banks, qualifying non-bank financial institutions and corporates						-				-	-
8	Retail exposures	544,040			1,659,412						1,802	**2,700,887**
8a	Exposures arising from IPO financing										-	-

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by exposure classes and by risk weights – for STC approach as at 31 December 2025 (Continued)

		0%	20%	25%	30%	35%	40%	45%	50%	60%	65%
9	Real estate exposures	-	2,249,492	1,207,869	2,290,284	179,822	311,583	338,605	198,605	995,741	
9a	Of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)		2,249,492	1,207,869	1,986,921		311,583	48,184	198,605	-	
9b	Of which: no loan splitting applied		2,249,492	1,207,869	1,986,921		311,583	48,184	198,605	-	
9c	Of which: loan splitting applied (secured)										
9d	Of which: loan splitting applied (unsecured)										
9e	Of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)				303,363	179,822		290,421		30,964	
9f	Of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	-	-		-		-		-	964,777	
9g	Of which: no loan splitting applied	-	-		-		-		-	964,777	
9h	Of which: loan splitting applied (secured)										
9i	Of which: loan splitting applied (unsecured)										
9j	Of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)										
9k	Of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	-	-		-		-		-		
9l	Of which: no loan splitting applied	-	-		-		-		-		
9m	Of which: loan splitting applied (secured)										
9n	Of which: loan splitting applied (unsecured)										
9o	Of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)										
9p	Of which: land acquisition, development and construction exposures										

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by exposure classes and by risk weights – for STC approach as at 31 December 2025 (Continued)

		70%	75%	85%	90%	100%	105%	110%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
9	Real estate exposures	8,378,328	2,109,647	5,873,080	5,030,456	6,768,422	4,965	4,782,739	5,001,787	41,604	**45,763,029**
9a	Of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	803,411	–				–			19,956	**6,826,021**
9b	Of which: no loan splitting applied	803,411	–				–			19,956	**6,826,021**
9c	Of which: loan splitting applied (secured)										
9d	Of which: loan splitting applied (unsecured)										
9e	Of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)		–		–		4,965			21,648	**831,183**
9f	Of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)		–	92,852		278,603			–	–	**1,336,232**
9g	Of which: no loan splitting applied		–	92,852		278,603			–	–	**1,336,232**
9h	Of which: loan splitting applied (secured)										
9i	Of which: loan splitting applied (unsecured)										
9j	Of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)	7,574,917			5,030,456			4,782,739		–	**17,388,112**
9k	Of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)		2,109,647	5,780,228		6,390,459			–	–	**14,280,334**
9l	Of which: no loan splitting applied		2,109,647	5,780,228		6,390,459			–	–	**14,280,334**
9m	Of which: loan splitting applied (secured)										
9n	Of which: loan splitting applied (unsecured)										
9o	Of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)								1,254,738	–	**1,254,738**
9p	Of which: land acquisition, development and construction exposures					99,360			3,747,049	–	**3,846,409**

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by exposure classes and by risk weights – for STC approach as at 31 December 2025 (Continued)

		0%	20%	50%	100%	150%	1250%	Other	Total credit exposure amount (post-CCF and post-CRM)
10	Defaulted exposures				128,097	3,214,511		–	**3,342,608**
11	Other exposures				4,115,452		–	–	**4,115,452**
11a	Cash and gold	1,340,161			36,259			423,404	**1,799,824**
11b	Items in the process of clearing or settlement	345,598	10					–	**345,608**

Exposure amounts and CCFs applied to off-balance sheet exposures, categorized based on risk bucket of converted exposures (STC version)

	Risk weight	On-balance sheet exposure	Off-balance sheet exposure (pre-CCF)	Weighted average CCF*	Exposure (post-CCF and post-CRM)
1	Less than 40%	139,626,057	3,054,329	43%	140,930,029
2	40–70%	23,103,460	5,882,994	26%	24,612,014
3	75%	4,247,235	3,106,668	12%	4,612,187
4	85%	6,994,423	6,152,737	18%	8,078,719
5	90- 100%	33,152,100	13,406,208	17%	35,378,303
6	105–130%	4,786,381	9,508	33%	4,789,506
7	150%	8,188,421	148,537	19%	8,216,298
8	250%	–	–	–	–
9	400%	–	–	–	–
10	1250%	–	–	–	–
11	**Total exposures**	220,098,077	31,760,981	21%	226,617,056

* Weighting is based on off-balance sheet exposure (pre-CCF)

(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 standardized (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 standardized approach.

The Group exercises strict control over counterparty credit risk exposure, including central counterparty ("CCP"). All credit limits are established in advance of transaction. Credit risk exposure 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. Under the terms of the ISDA and CSA with counterparties, there is no linkage between the Group's credit ratings and collateral requirements. As such, the impact of downgrade of the Group's credit rating to the collateral 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 credit risk exposures (other than those to CCPs) by approaches as at 31 December 2025

		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR approach (for derivative contracts)	141,729	684,803		1.4	1,157,145	613,013
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	**Total**						**613,013**

(All amounts in HK dollar thousands unless otherwise stated)

8 Counterparty credit risk (Continued)

(c) Counterparty credit risk exposures (other than those to CCPs) by exposure classes and by risk weights – for STC approach as at 31 December 2025

	Exposure class / Risk weight	0%	10%	20%	30%	40%	50%	75%	85%	100%	150%	Others	Total default risk exposure after CRM
1	Sovereign exposures	–	–	–	–	–	–	–	–	–	–	-	-
2	Public sector entity exposures	–	–	–	–	–	–	–	–	–	–	-	-
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	-	-
4	Unspecified multilateral body exposures	–	–	–	–	–	–	–	–	–	–	-	-
5	Bank exposures	–	–	622,504	19,694	–	–	–	–	–	–	-	642,198
6	Qualifying non-bank financial institution exposures	–	–	–	–	–	–	–	–	–	–	-	-
7	General corporate exposures	–	–	–	–	–	64,687	–	–	233,477	–	-	298,164
8	Retail exposures	–	–	–	–	–	–	–	–	216,783	–	-	216,783
9	Defaulted exposures	–	–	–	–	–	–	–	–	–	–	-	-
10	Other exposures	–	–	–	–	–	–	–	–	–	–	-	-
11	**Total**	**-**	**-**	**622,504**	**19,694**	**-**	**64,687**	**-**	**-**	**450,260**	**-**	**-**	**1,157,145**

(d) Composition of collateral for counterparty credit risk exposures (including those for contracts or transactions cleared through CCPs) as at 31 December 2025

		Derivative contracts				SFTs	
		Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – domestic currencies	–	–	–	9,479	–	–
2	Cash – other currencies	–	79,615	–	129,242	–	–
3	**Total**	**–**	**79,615**	**–**	**138,721**	**–**	**–**

(e) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 31 December 2025.

(f) Exposures to CCPs

The Group did not have any exposures to CCPs as at 31 December 2025.

(All amounts in HK dollar thousands unless otherwise stated)

9 Credit valuation adjustment ("CVA") risk

(a) Qualitative disclosures related to CVA risk

CVA is an adjustment to the fair value of derivative instruments to reflect the counterparty credit risk in derivative valuations. It represents the change in the market value of those derivatives due to the possibility that the Group's counterparties may default on their obligations. CVA risk arises from fluctuations in this adjustment due to changes in counterparty credit spreads and relevant market risk factors. The Group adopts the reduced basic CVA ("BA-CVA") approach to calculate RWA and capital charges for CVA risk, and it is not applicable to the Group to set its RWA for CVA risk at 100% of its RWA for counterparty credit risk exposures as prescribed under the BCR.

The Group has established a policy that governs the management of counterparty credit risk, including CVA risk. The policy is reviewed and approved by the Board on a regular basis. The capital consumption arising from the underlying CVA exposures is calculated by the Risk Management Division and reviewed by senior management. The Group does not hedge its CVA risk given that the derivative transactions are primarily used for hedging its underlying positions and the exposure is considered immaterial to the Group's operations.

(b) CVA risk under reduced basic CVA approach as at 31 December 2025

		Components	CVA risk capital charge under the reduced basic CVA approach
1	Aggregation of systematic components of CVA risk	83,869	
2	Aggregation of idiosyncratic components of CVA risk	17,902	
3	Total		29,061

10 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 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 Risk 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 3.2.5 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 Risk 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 maintains a robust control framework for determining which instruments are to be included in, and excluded from, the trading book for the purpose of calculating the market risk capital charge. The financial instruments mandated to be designated as trading, those presumed to be trading and those excluded from a trading designation are delineated in the relevant policy. The Group's investment in the listed equity of a long-standing strategic partner is designated as a banking book instrument following the HKMA's exemption approval. Both the market and gross fair value of this investment are HK$4,798 million. No instruments have been moved between the banking book and trading book since the last reporting period.

(All amounts in HK dollar thousands unless otherwise stated)

10 Market risk (Continued)

(a) Qualitative disclosures related to market risk (Continued)

Market risk measurement (Continued)

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 derivatives used by the Group including foreign exchange and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Risk Committee. The Group uses foreign exchange instruments, including derivatives, to mitigate foreign exchange risk arising from FX rate changes that will affect the fair value of equity instruments. Hedge effectiveness is assessed at inception on a prospective basis and is reassessed on an ongoing basis, based on actual experience and valuation.

(b) Market risk under STM approach as at 31 December 2025

		Market risk capital charges under STM approach
1	General interest rate risk	22,290
2	Equity risk	–
3	Commodity risk	7,239
4	Foreign exchange risk	544,254
5	Credit spread risk (non-securitization)	2,692
6	Credit spread risk (securitization: non-correlation trading portfolio (“CTP”))	–
7	Credit spread risk (securitization: CTP)	–
8	Standardized default risk charge (“SA-DRC”) (non-securitization)	834
9	SA-DRC (securitization: non-CTP)	–
10	SA-DRC (securitization: CTP)	–
11	Residual risk add-on	89
12	Total	577,398

11 Operational risk

(a) General information on operational risk framework

Policies, frameworks and guidelines for the management of operational risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is inherent in all products, activities, processes and systems.

The Compliance and Operational Risk Management Committee ("CORMC") is responsible for governing and overseeing matters related to the management of the Group's operational risks.

The Operational Risk Management Department ("ORMD") under the Risk Management Division, as a second line of defense function, supports the business and support units in controlling and managing operational risks arising from their activities in accordance with the controls and procedures outlined in the operational risk management policy approved by the Risk Committee.

The operational risk management policy prescribes key aspects of the three lines of defense model and operational risk management tools to facilitate effective identification, assessment, mitigation, monitoring and reporting of operational risks. Additionally, a Business Continuity Plan and an Operational Resilience Framework have been 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.

Organizational structure of operational risk management and control function

The ORMD reports directly to the Head of Risks. ORMD supports the CORMC in overseeing the Group's operational risk management. The following key activities are performed by the ORMD:

– **Policies & Procedures:** Develops, maintains, and implements the Group's operational risk control framework, including policies, guidelines, and procedures that govern operational, technology, reputation and strategic risks.

– **Operational Risk Management:** Manages the bank-wide operational risk framework, covering operational, technology, strategic, and reputation risks.

– **Business Continuity Planning:** Oversees the development, testing, and maintenance of the Bank's business continuity plans to ensure operational resilience.

– **Incident Management:** Investigates operational risk incidents, identifies root causes of control failures, and recommends corrective actions to risk owners for process and control improvement.

– **Monitoring & Assessment:** Establishes Key Performance Indicators to measure departmental efficiency and effectiveness. Conducts risk assessments, reviews, and monitoring activities to track operational risk performance against targets.

– **Thematic Reviews:** Performs control assurance reviews to validate the effectiveness of controls implemented by the first line of defence in addressing operational, technology, strategic, and reputation risks.

– **Reporting:** Prepares management reports on operational, technology, reputation, and strategic risks for submission to governance bodies, including Management Committees and Board-delegated Committees.

– **Product Governance:** Serves as Secretariat to the Product/Service Governance Committee, ensuring alignment with governance standards and regulatory requirements.

11 Operational risk (Continued)

(a) General information on operational risk framework (Continued)

Operational risk measurement system

The Group employs the standardized approach for operational risk capital calculations.

The Group has implemented the Operational Risk Management System to record the bank-wide operational risk events. The Operational Risk Management System aids in quantifying operational risks and ensures the completeness and accuracy of operational risk events data. All business and support units, along with branches, are required to report any encountered operational risk events to the ORMD for follow-up, ensuring timely mitigation and management of these events.

Scope and main context of reporting framework on operational risk to senior management and to the Board of Directors

The ORMD ensures that regular risk reporting is carried out for senior management and the Board. A summary report on the Group's operational risk management activities is presented to the CORMC and Executive Committee, the Risk Committee, and the Audit Committee for review on a monthly, quarterly, and semi-annual basis respectively.

The reporting framework encompasses the identification, assessment, monitoring, and mitigation of operational risks across the Group. The main context of the reporting framework is to provide senior management and the Board with a clear understanding of the Group's operational risk profile and the effectiveness of operational risk management efforts.

Risk mitigation and risk transfer used in the management of operational risk

Qualitative disclosure is described in Note 3(a) of Regulatory Disclosure.

(b) Historical losses

The Group is classified in Operational Risk Bucket 1 with an internal loss multiplier of 1, and has not included any operational loss data into the calculation of its capital charge for operational risk.

(All amounts in HK dollar thousands unless otherwise stated)

11 Operational risk (Continued)

(c) Business indicator (BI) and business indicator components breakdown

(i) Business indicator components breakdown

	BI and its subcomponents	For the year ended 31 December		
		2025	2024	2023
1	Interest, leases and dividend component	4,552,459		
1a	Interest and leases income	8,659,519	10,440,691	9,987,056
1b	Interest and leases expenses	4,448,380	6,165,784	5,715,362
1c	Interest earning assets	215,140,366	215,406,893	215,345,990
1d	Dividend income	293,637	378,886	227,114
2	Services component	1,014,952		
2a	Fee and commission income	836,352	634,468	645,497
2b	Fee and commission expenses	61,310	62,996	55,227
2c	Other operating income	648,404	138,804	141,330
2d	Other operating expenses	341	146	510
3	Financial component	373,564		
3a	Net P&L on trading book	442,614	301,853	292,395
3b	Net P&L on banking book	71,610	9,696	2,523
4	BI	5,940,975		
5	Business indicator component (BIC)	712,917		

(ii) Disclosure on the BI – divested businesses and activities

The Group did not have divested businesses and activities for the years 2023, 2024 and 2025.

(d) Minimum operational risk capital requirement

1	Business indicator component (BIC)	712,917
2	Internal loss multiplier (ILM)	1
3	Minimum operational risk capital requirement	712,917
4	Total RWA for operational risk	8,911,463

12 Liquidity risk

(a) Qualitative disclosure related to liquidity risk management

Governance of liquidity risk management

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 Board is ultimately responsible for overseeing the Group's liquidity risk management structure and approving the risk appetite statement. 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 investment and funding strategies, particularly to ensure that the Bank has adequate funds to meet its obligations.

The Group's day-to-day liquidity is managed by the Treasury Division in accordance with the guidelines and procedures outlined in the liquidity risk management policy. The Risk Management Division is responsible for identifying, measuring, monitoring, and controlling the liquidity risk associated with the Group's activities within the liquidity risk management framework.

In accordance with the relevant legal and regulatory requirements, and the Group's risk appetite, Liquidity Risk Management Policy was established to outline the principles and strategies for managing liquidity risk. This Policy includes requirements for various risk limits to control risk exposure under an acceptable risk tolerance level, as well as guidelines for monitoring, reporting, and implementing control mechanisms. The Liquidity Risk Management Policy is reviewed and endorsed by the Asset and Liability Committee and approved by the Risk Committee at least annually.

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 operations in and outside Hong Kong 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.

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.

12 Liquidity risk (Continued)

(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.

(All amounts in HK dollar thousands unless otherwise stated)

12 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	729,431	–	–	–	–	–	–
Amount receivable arising from derivative contracts	10,142	239,746	134,710	233,714	94,959	–	–
Due from MA for a/c of Exchange Fund	937,976	–	–	–	–	–	–
Due from overseas central banks	293,722	–	–	–	–	–	63,957
Due from banks	9,668,358	25,951,300	33,924,638	7,024,024	194,563	–	–
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	66,748,787	123,264	91,049	211,125	146,782	–	2,874
Acceptances and bills of exchange held	98,146	7,206	14,998	936	–	–	–
Loans and advances to non-bank customers	4,815,322	2,897,457	4,563,115	9,749,225	26,847,544	15,847,640	5,631,411
Other assets	388,477	534,846	227,529	474,037	1,080,979	288,460	9,440,708
Total on-balance sheet assets	**83,690,361**	**29,753,819**	**38,956,039**	**17,693,061**	**28,364,827**	**16,136,100**	**15,138,950**
Total off-balance sheet claims	**–**	**611,340**	**879,140**	**700,000**	**–**	**–**	**400,000**
Deposits from non-bank customers	58,899,880	42,963,285	57,993,277	15,157,370	182,392	28,402	–
Amount payable arising from derivative contracts	8,856	235,212	150,787	224,207	94,957	–	–
Due to MA for a/c of Exchange Fund	–	–	389,125	–	–	–	–
Due to banks	1,257,133	2,102,287	1,285,620	456,936	–	–	–
Other liabilities	475,237	954,591	552,531	524,081	65,011	57,219	–
Capital and reserves	–	–	–	–	2,702,108	–	41,199,893
Total on-balance sheet liabilities	**60,641,106**	**46,255,375**	**60,371,340**	**16,362,594**	**3,044,468**	**85,621**	**41,199,893**
Total off-balance sheet obligations	**7,572,959**	**1,884,760**	**1,183,247**	**3,213,933**	**1,652,735**	**1,486,139**	**–**
Contractual Maturity Mismatch	**15,476,296**	**(17,774,976)**	**(21,719,408)**	**(1,183,466)**	**23,667,624**	**14,564,340**	
Cumulative Contractual Maturity Mismatch	**15,476,296**	**(2,298,680)**	**(24,018,088)**	**(25,201,554)**	**(1,533,930)**	**13,030,410**	

(All amounts in HK dollar thousands unless otherwise stated)

13 Interest rate risk in the banking book ("IRRBB")

Qualitative disclosure and quantitative disclosure are described in Note 3.2.5 of Notes to the Consolidated Financial Statements.

14 Asset Encumbrance

The encumbered and unencumbered assets on the balance sheet as at 31 December 2025 are shown below.

	Encumbered assets*	Unencumbered assets	Total
Balances and placements with and advances to banks	376,901	78,409,541	**78,786,442**
Loans and advances to customers	–	67,275,776	**67,275,776**
Investment securities	3,725,391	69,080,932	**72,806,323**
Other assets	138,721	8,082,566	**8,221,287**
Total	**4,241,013**	**222,848,815**	**227,089,828**

* Assets that the Group is restricted or prevented from liquidating, selling, transferring or assigning due to legal, regulatory, contractual or other limitations.

15 Non-bank mainland exposures

The Bank	2025			2024		
Types of counterparties	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	793,331	3,629	796,960	1,927,666	5,874	1,933,540
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	74,907	–	74,907	–	–	–
3. PRC nationals residing in Chinese Mainland or other entities incorporated in Chinese Mainland and their subsidiaries and joint ventures	7,597,418	623,084	8,220,502	7,291,296	556,579	7,847,875
4. Other entities of central government not reported in item 1 above	448,292	–	448,292	371,145	–	371,145
5. Other entities of local governments not reported in item 2 above	–	–	–	142,316	–	142,316
6. PRC nationals residing outside Chinese Mainland or entities incorporated outside Chinese Mainland where the credit is granted for use in Chinese Mainland	3,276,708	324,836	3,601,544	4,350,673	192,124	4,542,797
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Chinese Mainland exposures	550,382	5	550,387	979,094	–	979,094
Total	12,741,038	951,554	13,692,592	15,062,190	754,577	15,816,767
Total assets after provisions	222,019,814			217,731,890		
On-balance sheet exposures as percentage of total assets	5.74%			6.92%		

(All amounts in HK dollar thousands unless otherwise stated)

16 Currency concentrations

	2025						
Equivalent in Hong Kong Dollars	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/(short) position	Net structural position
US Dollars	86,374,000	(90,536,000)	49,976,000	(37,240,000)	(832,000)	7,742,000	6,817,000
Pound Sterling	5,373,000	(5,424,000)	796,000	(737,000)	–	8,000	3,000
Euro Dollars	1,115,000	(1,169,000)	4,176,000	(4,543,000)	409,000	(12,000)	–
Renminbi	13,957,000	(12,913,000)	3,783,000	(4,908,000)	–	(81,000)	5,202,000
Canadian Dollars	1,381,000	(1,382,000)	299,000	(372,000)	–	(74,000)	–
Australian Dollars	4,043,000	(4,040,000)	2,015,000	(2,009,000)	–	9,000	–
Other currencies and gold	6,709,000	(1,589,000)	7,411,000	(12,699,000)	423,000	255,000	–
	118,952,000	(117,053,000)	68,456,000	(62,508,000)	–	7,847,000	12,022,000

	2024						
Equivalent in Hong Kong Dollars	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/(short) position	Net structural position
US Dollars	91,976,000	(92,153,000)	40,583,000	(34,037,000)	3,000	6,372,000	7,010,000
Pound Sterling	6,507,000	(5,458,000)	1,739,000	(2,845,000)	–	(57,000)	3,000
Euro Dollars	1,020,000	(1,004,000)	1,561,000	(1,585,000)	–	(8,000)	–
Renminbi	15,628,000	(14,646,000)	9,219,000	(9,605,000)	–	596,000	4,752,000
Canadian Dollars	1,326,000	(1,273,000)	216,000	(223,000)	(1,000)	45,000	–
Australian Dollars	2,429,000	(2,408,000)	1,405,000	(1,406,000)	–	20,000	–
Other currencies and gold	2,638,000	(2,094,000)	7,551,000	(7,841,000)	(2,000)	252,000	–
	121,524,000	(119,036,000)	62,274,000	(57,542,000)	–	7,220,000	11,765,000

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.

17 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 branches outside Hong Kong, 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, Mr. Gordon Che-keung KWONG and Ms. Alice Shing-mui LAW.

In 2025, the Committee held six physical meetings. Major tasks performed by the Committee are to review and approve the annual independent review report on the Bank's remuneration system carried out by the Internal Audit Department; to review and endorse the Remuneration Policy with revisions mainly about incorporating material credit risk taking personnel in the deferral arrangement of variable remuneration, enhancing the role of Chief Risk Officer in advising the Committee and the Chief Executive in relation to the discretionary bonus determination and vesting of deferred variable remuneration, and strengthening the role of the Committee in relation to across-the-board salary review; to review and recommend changes in discretionary bonus and across-the-board salary review cycles; 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.

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 2025 mainly enhanced the scope of deferral arrangement of variable remuneration for better alignment with the expectation outlined in the Hong Kong Monetary Authority Supervisory Policy Manual CG-5 "Guideline on a Sound Remuneration System" ("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. The Bank has adopted the principle of conducting an independent review of the effectiveness of its remuneration system by an external consultant once every five years or more frequently on a need basis, with the Internal Audit Department conducting reviews in the intervening periods to ensure compliance with the principles set out in CG-5. In 2025, the Bank commissioned the Internal Audit Department to conduct the regular independent review.

17 Disclosure on remuneration (Continued)

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 or those of the Bank's material business lines 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.

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.

17 Disclosure on remuneration (Continued)

Performance measurements and the distribution of variable remuneration (Continued)

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 2025. 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 based on erroneous assumptions, 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.

(All amounts in HK dollar thousands unless otherwise stated)

17 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 2025, split into fixed and variable remuneration, is set out below:

Remuneration amount and quantitative information		Senior management	Key personnel
Fixed remuneration	Number of employees	10	14
	Total fixed remuneration	**30,208**	**27,696**
	Cash-based	30,208	27,696
	Of which: deferred	–	–
	Other forms		
	Of which: deferred	–	–
Variable remuneration	Number of employees	9	13
	Total variable remuneration	**37,818**	**15,574**
	Cash-based	37,818	15,574
	Of which: deferred	18,822	6,135
	Other forms	–	–
	Of which: deferred	–	–
Total remuneration		**68,026**	**43,270**

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 or those of the Bank's material business lines 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.

(All amounts in HK dollar thousands unless otherwise stated)

17 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
1	Senior management	–	–	1	16,235	–	–
2	Key personnel	–	–	1	4,059	–	–

Deferred and retained remuneration in 2025	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year of 2025 due to ex post explicit adjustments	Total amount of amendment during the year of 2025 due to ex post implicit adjustments	Total amount of deferred remuneration paid out in financial year of 2025
Senior management					
Cash	18,114	18,114	2,238	–	7,879
Other	–	–	–	–	–
Key personnel					
Cash	10,137	10,137	47	–	3,272
Other	–	–	–	–	–
Total	**28,251**	**28,251**	**2,285**	**–**	**11,151**

Note:

(i) The outstanding deferred remuneration in the financial year relates to the 2023, 2024 and 2025 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

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
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	Units B128-B131, G/F., East Asia Gardens, 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
Tung Chung Branch	Shops 1–2, Block 5, Tung Chung Crescent, Tung Chung, Lantau (Closed on 6 December 2025 onward.)
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

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

Paofoong Insurance Company (Hong Kong) Limited
Shanghai Commercial Bank Trustee Limited