



Standard Chartered Bank
(Hong Kong) Limited

Directors' Report and
Consolidated Financial
Statements

For the year ended
31 December 2020

Standard Chartered Bank (Hong Kong) Limited
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Report of the directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2020.

Principal place of business

Standard Chartered Bank (Hong Kong) Limited (the “Bank”) is a bank incorporated and domiciled in Hong Kong and has its registered office at 32/F, 4 – 4A Des Voeux Road, Central, Hong Kong.

Principal activities

The Bank is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank’s principal activities are the provision of banking and related financial services. The principal activities and other particulars of the Bank’s principal subsidiaries are set out in note 17 to the consolidated financial statements.

Financial statements

The profit of the Bank and its subsidiaries (together the “Group”) for the year ended 31 December 2020 and the state of the Group’s affairs as at that date are set out in the consolidated financial statements on pages 14 to 170.

During the year ended 31 December 2020, the directors had declared and paid an ordinary dividend of HK\$0.77 per each Class A, B, C and D ordinary share totalling HK\$4,093 million (2019: HK\$0.74 per each Class A, B, C and D ordinary share totalling HK\$3,904 million). Dividends of HK\$411 million (2019: HK\$144 million), HK\$242 million (2019: HK\$244 million) and HK\$99 million (2019: HK\$98 million) were paid in respect of the US\$900 million floating rate undated Additional Tier 1 capital securities, the US\$500 million 6.25% perpetual non-cumulative convertible preference shares and the US\$250 million 5% perpetual non-cumulative subordinated capital securities classified as equity, respectively.

On 30 December 2020, the Bank has redeemed the US\$500 million 6.25% perpetual non-cumulative convertible preference shares out of its distributable profits.

Details of the movements in reserves are set out in the consolidated statement of changes in equity.

Charitable donations

Charitable donations made by the Group during the year amounted to HK\$38 million (2019: HK\$43 million).

Share capital

Details of the movements in the share capital of the Bank during the year are set out in note 29 to the consolidated financial statements.

Directors

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

Executive directors

Pi Cheng Benjamin HUNG

Gregory John POWELL

Darren Suk KIM

Wai Yi Mary HUEN

Yee Mann HAU

Report of the directors (continued)

Non-Executive directors

Edward Martin WILLIAMS, Chairman

Cheuk Kuen Gloria LEE

Michael Andres GORRIZ

Ching FONG*

Stephen Robert ENO*

Wai Sun Edward CHENG*

Lieh Cheung Andrew TUNG*

** Independent non-executive directors*

A full list of the names of the directors of the Bank's subsidiaries is set out in Appendix II.

Directors' service contracts

The term of service contracts of all independent non-executive directors, and non-executive directors, Edward Martin WILLIAMS and Cheuk Kuen Gloria LEE, is 2 years. Their remuneration was approved by the shareholders.

Directors' interests in Share Option Schemes

Certain directors of the Bank have been granted options under various share option schemes of Standard Chartered PLC, the ultimate holding company of the Bank. During the year, Edward Martin WILLIAMS, Pi Cheng Benjamin HUNG, Gregory John POWELL, Darren Suk KIM, Wai Yi Mary HUEN, Yee Mann HAU, Michael Andres GORRIZ were granted options under these schemes.

Directors' rights to acquire shares

At no time during the year was the Bank, any of its holding companies, subsidiaries, or fellow subsidiaries, a party to any other arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in transactions, arrangements or contracts

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

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Report of the directors (continued)

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Bank is currently in force and was in force throughout the year.

Auditor

The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as the auditor of the Bank is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Edward Martin WILLIAMS
Chairman

Hong Kong, 25 February 2021



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Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Standard Chartered Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 14 to 170, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Credit impairment of advances to customers	
<p>Refer to significant accounting policies in Note 2(k), and disclosures on credit risk and credit impairment in Note 34(a), Note 14 and Note 15 to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group reported total gross advances to customers of HK\$1,097 billion and expected credit loss provisions of HK\$5,551 million.</p> <p>To estimate expected credit losses (ECLs), management is required to make significant judgements and estimates. The most subjective, and subject to the most significant degree of estimation uncertainty, of these include:</p> <ul style="list-style-type: none"> • the allocation of assets to stage 1, 2, or 3 by identifying a significant increase in credit risk (SICR) since origination of the asset. In particular, judgement is required to assess the impact of COVID-19 and the related government support measures in the identification of SICR; • accounting interpretations, modelling assumptions and selection of data used to build and run the models which are used to calculate the ECLs. Judgement is required to evaluate the model performance in the context of COVID-19; 	<p>We evaluated the design and operating effectiveness of controls relevant to the Group's processes over material ECL balances, including the identified judgements and estimates. These controls, amongst others, included controls over the allocation of assets into stages, management's monitoring of stage effectiveness, the governance and review of post model adjustments, risk event overlays, model validation, data accuracy and completeness, multiple economic scenarios, credit monitoring, individual impairment provisions, the posting of journal entries, and the compilation of disclosures.</p> <p>Also, we obtained documents and minutes of the executive forums on which credit models and ECL provisions were evaluated for evidence of executive review and challenge.</p> <p>We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, the risk profile of credit exposures, the impact of COVID-19 including geographic considerations and high-risk industries. We also assessed the effect of government support measures, including principal payment deferrals on the measurement of ECL provisions. Our assessment also included evaluating the macroeconomic environment by considering trends in the economies and industries to which the Group is exposed.</p> <p>We evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with HKFRS/IFRS 9. We tested the assets in stage 1, 2 and 3 for a sample of portfolios to assess if they were allocated to the appropriate stage. We performed a sensitivity analysis to evaluate whether the application of different staging criteria would result in a materially different ECL provision amount.</p> <p>Additionally, to test credit monitoring, we assessed the risk ratings for a sample of performing loans and focused our testing on high-risk industries impacted by COVID-19.</p>



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<ul style="list-style-type: none"> • assumptions in respect of possible future economic scenarios and the impacts on these on the measurement of ECLs. Management utilises a Monte Carlo Simulation (MCS) to model a range of possible future economic scenarios. Judgement is required in the selection of parameters input into the MCS. Additionally, judgement is needed to evaluate if the MCS sufficiently captures non-linearity, generates a reasonably wide range of possible outcomes and appropriately incorporates the impact of COVID-19; • as a result of COVID-19, management has incorporated additional post-model adjustments and risk overlays to address model ineffectiveness. These non-modelled outcomes have an increased risk of management override; and • for individual impairment provisions, judgement is required to determine the probability of multiple exit/work out scenarios and estimate the impact of COVID-19 that may have on these exit strategies, the time to collect, and collateral valuation. <p>Because of the significance of the expected credit loss provisions recorded by the Group and the management judgements and estimates involved, impairment of advances to customers is considered a key audit matter.</p>	<p>In respect of the modelled ECLs:</p> <ul style="list-style-type: none"> • We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. • In conjunction with our modelling specialists, we tested the assumptions, inputs and formulae used for a sample of the ECL models. These procedures included a combination of assessing the appropriateness of model design and formulae used, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. • We also assessed material post-model adjustments which were applied as a response to model ineffectiveness and risk event overlays as a result of COVID-19. We also considered the completeness and appropriateness of these adjustments, with our modelling specialists, by assessing the data sources, judgements made, methodologies used, sensitivities, and the governance processes. <p>To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historical loss data used to monitor the models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures.</p> <p>In respect of the macroeconomic forecasts which were derived using the MCS:</p> <ul style="list-style-type: none"> • In conjunction with our economic specialists, we evaluated the base economic scenario forecast and the range of economic scenarios produced by the MCS by comparing them to other scenarios from various external sources. <p>For a sample of material models, we also evaluated the macroeconomic parameters used as inputs into these models in collaboration with our economist and modelling specialists.</p>
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Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

	<p>For a sample of individual impairment provisions which were selected quantitative and qualitative factors:</p> <ul style="list-style-type: none"> We assessed management's forward-looking economic assumptions regarding the recovery outcomes identified and evaluated the assigned individual probability weightings of these outcomes. We also considered whether the planned exit strategies remained viable under COVID-19. We also engaged our valuation specialists to test the collateral value used in management's calculations, including a consideration of the impact of COVID-19. <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.</p>
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Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
<p>Refer to significant accounting policies in Note 2(i), and disclosures on fair values and valuation hierarchy of financial instruments in Notes 12, 13, 24, 32 and 35 to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group's financial assets and liabilities measured at fair value amounted to HK\$789 billion and HK\$213 billion. Financial assets of HK\$4 billion and financial liabilities of HK\$2 billion were classified as Level 3 under the valuation hierarchy.</p> <p>To estimate the fair value of these Level 3 financial instruments, management is required to exercise significant judgement in respect of:</p> <ul style="list-style-type: none"> the selection of appropriate valuation techniques and valuation models 	<p>We evaluated the design and operating effectiveness of controls relating to the valuation of financial instruments, including independent price verification, model review and approval, collateral management, and income statement analysis and reporting.</p> <p>In conjunction with our valuation specialists, we performed, amongst others, the following procedures for a sample of Level 3 financial instruments:</p> <ul style="list-style-type: none"> Tested management's independent price verification process. Critically evaluated the appropriateness of model selection and model design, including comparing to market practice for the valuation of similar financial instruments. Independently revalued a sample of financial instruments and compared management's valuation outcome to our independent testing. We obtained an understanding and evaluated any material differences in valuation outcomes.



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<ul style="list-style-type: none"> the development of assumptions and inputs into the valuation models. Significant unobservable inputs into these valuation models included, amongst others, counterparty credit spreads, recovery rates and discount rates. <p>In view of the complexity and significance of management judgements and assumptions required, valuation of Level 3 financial instruments is considered a key audit matter.</p>	<ul style="list-style-type: none"> Assessed the valuation inputs used and agreed to third-party data sources where available. <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.</p>
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Key audit matter	How our audit addressed the key audit matter
<p>Impairment of leased assets</p> <p>Refer to significant accounting policies in Note 2(h), and disclosures on impairment of leased assets in Note 19 to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group owned a portfolio of 102 aircraft with a net carrying value of HK\$28 billion, including an impairment provision of HK\$411 million. The aircraft are leased to airlines and classified as “operating leased assets as lessor” within property, plant and equipment in the Group’s consolidated statement of financial position. The aircraft are measured at cost less accumulated depreciation and impairment.</p> <p>Aircraft assets are subject to quarterly impairment testing, whereby the carrying value of each aircraft is compared to the recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal of each aircraft is measured with reference to current market value provided by external appraisers whilst value in use is determined by estimating the future cash flows anticipated for each aircraft over its remaining useful life and discounting these cash flows to present value.</p>	<p>We performed a walkthrough of the impairment testing process and evaluated the design effectiveness of related controls. We reviewed the impairment model and assessment conducted by management for compliance with the relevant accounting standards.</p> <p>In respect of leased assets tested by reference to the external appraiser reports, we:</p> <ul style="list-style-type: none"> assessed the objectivity, competence and independence of management’s external appraisers; evaluated the appropriateness of the scope of the external appraisers’ procedures; and benchmarked the external appraisers’ assumptions to market data. <p>In respect of leased assets tested by reference to a value-in-use model, in conjunction with our valuation specialists, we:</p> <ul style="list-style-type: none"> critically evaluated key model inputs including discount rates, cash flow forecasts and re-lease periods; performed sensitivity analysis to obtain an understanding of whether reasonable possible alternative assumptions could result in a material impairment; and



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<p>Impairment is recognised in the consolidated income statement when the carrying value is higher than the recoverable amount. The estimates of the fair value less costs of disposal and value in use involve the exercise of management judgements and estimates, including assumptions in determining future lease rates for re-lease periods, residual values and discount rates.</p> <p>Because of the significant management judgements and assumptions required in the impairment testing of each aircraft, impairment of the aircraft assets is considered a key audit matter.</p>	<ul style="list-style-type: none"> • tested the mathematical accuracy of the value in use model. <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.</p>
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Key audit matter	How our audit addressed the key audit matter
<p>Investment in China Bohai Bank</p>	
<p>Refer to significant accounting policies in Note 2(d), and disclosures on interest in China Bohai Bank in Note 18 to the consolidated financial statements.</p> <p>At 31 December 2020, the Group reported an investment in an associate, China Bohai Bank (Bohai), amounting to HK\$15.7 billion. On 16 July 2020, Bohai completed an initial public offering (IPO) to become listed on the Hong Kong Stock Exchange. The Group's investment in Bohai was then diluted to 16.26% as at 31 December 2020. Management judgement is needed to assess whether significant influence still exists after the IPO and whether Bohai can continue to be accounted for as an associate.</p>	<p>We critically evaluated the facts and circumstances that the Group presented to demonstrate its ability to exercise significant influence over Bohai subsequent to the dilution of the Group's investment. In particular, we considered the composition of Bohai's board of directors and the participation of the Group's representative in the critical decision-making committees of Bohai.</p> <p>We assessed the Group's value in use methodology for testing the impairment of the investment in Bohai.</p> <p>We involved valuation specialists in calculating an independent range of assumptions underlying the value in use calculations, such as the discount rate and long-term growth rate. We also performed a sensitivity analysis on the value in use and reconciled the future profitability forecasts to analyst reports. We checked the mathematical accuracy of the value in use model.</p> <p>We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards.</p>



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<p>There was a deficit between the Group's share of Bohai's market capitalisation as at 31 December 2020 compared to the carrying value of the investment. Impairment of the investment in Bohai is determined by comparing the carrying amount to the value in use. The value in use is based on future profitability forecasts, discount rates and macroeconomic assumptions including long-term growth rates.</p> <p>Considering the significant judgements and assumptions underpinning the management assessment on having significant influence exerted on Bohai by the Group and the impairment testing, investment in Bohai is considered a key audit matter.</p>	
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Key audit matter	How our audit addressed the key audit matter
User access management	
<p>The group-wide IT environment is complex in terms of the scale and nature of IT systems relied upon. IT General Controls (ITGCs) support the continuous operation of the automated controls within the business processes related to financial reporting. Effective ITGCs are needed to ensure that IT applications process business data as expected and that changes are made appropriately.</p> <p>During our audit planning, we identified User Access Management including IT privileged access controls for applications that are critical to financial reporting is of a heightened risk and therefore this is considered to be a key audit matter.</p>	<p>We engaged IT specialists to test the design and operating effectiveness of the Group's ITGCs over the applications that are critical to financial reporting.</p> <p>ITGC testing procedures included obtaining an understanding of and testing the key controls surrounding the Group's IT centralised process for privileged access management across in-scope applications. We reviewed the results of management's remediation program and risk assessment for in-scope applications and assessed the impact on the consolidated financial statements of the Group.</p> <p>Where there were control deficiencies that affected applications and supporting IT systems within the scope of our audit, we tested compensating controls or performed additional substantive audit testing.</p>



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Other information other than the consolidated financial statements and auditor's report thereon

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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



Independent auditor's report

To the members of Standard Chartered Bank (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

25 February 2021

Consolidated income statement
For the year ended 31 December 2020
(Expressed in millions of Hong Kong dollars)

	Note	2020 HK\$'M	2019 HK\$'M
Interest income	4(a)	36,517	46,139
Interest expense	4(b)	(12,939)	(18,850)
Net interest income		<u>23,578</u>	<u>27,289</u>
Fee and commission income		11,338	11,684
Fee and commission expense		(2,251)	(2,284)
Net fee and commission income	4(c)	9,087	9,400
Net trading income	4(d)	8,034	6,688
Other operating income	4(e)	4,252	4,855
		<u>21,373</u>	<u>20,943</u>
Total operating income		44,951	48,232
Staff costs		(13,686)	(14,454)
Premises and equipment		(4,655)	(4,752)
Others		(11,087)	(10,583)
Operating expenses	4(f)	(29,428)	(29,789)
Operating profit before impairment		15,523	18,443
Credit impairment	5(a)	(2,707)	(1,648)
Other impairment	5(b)	(1,238)	(818)
Operating profit after impairment		11,578	15,977
Share of profit of an associate		1,263	1,934
Profit before taxation		12,841	17,911
Taxation	6(a)	(2,637)	(3,279)
Profit after taxation		<u>10,204</u>	<u>14,632</u>
Profit/(loss) attributable to:			
– Non-controlling interests		(158)	(93)
– Equity shareholders of the Bank		10,362	14,725
Profit after taxation		<u>10,204</u>	<u>14,632</u>

The notes on pages 20 to 170 form part of these consolidated financial statements.

Consolidated statement of comprehensive income**For the year ended 31 December 2020***(Expressed in millions of Hong Kong dollars)*

	2020 HK\$'M	2019 HK\$'M
Profit after taxation	10,204	14,632
Other comprehensive income:		
<u>Items that will not be reclassified to the income statement:</u>		
Own credit adjustment:		
– Changes in own credit adjustment on financial liabilities designated at fair value through profit or loss	48	(950)
– Related tax effect	(11)	162
Defined benefit plans:		
– Remeasurement of retirement benefit obligations	146	107
– Related tax effect	(5)	(13)
Equity securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the year	(75)	(52)
<u>Items that may be reclassified subsequently to the income statement:</u>		
Debt securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the year	2,530	1,413
– Changes in fair value transferred to the income statement on disposal	(604)	(196)
– Transfer to the income statement on fair value hedged items attributable to hedged risk	(1,153)	(707)
– Expected credit loss	10	–
– Share of impact from an associate	(287)	175
– Related tax effect	(52)	(100)
Cash flow hedges:		
– Changes in fair value recognised during the year	(43)	(779)
– Transfer to the income statement on termination of hedging derivatives	61	18
– Related tax effect	(3)	123
Exchange differences on translation of foreign operations	4,032	(2,549)
Other comprehensive income for the year, net of tax	4,594	(3,348)
Total comprehensive income	<u>14,798</u>	<u>11,284</u>
Total comprehensive income attributable to:		
– Non-controlling interests	(158)	(93)
– Equity shareholders of the Bank	14,956	11,377
Total comprehensive income	<u>14,798</u>	<u>11,284</u>

The notes on pages 20 to 170 form part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2020*(Expressed in millions of Hong Kong dollars)*

	Note	2020 HK\$'M	2019 HK\$'M
Assets			
Cash and balances at central banks	9	66,640	68,549
Advances to banks and other financial institutions	10	129,316	129,258
Hong Kong SAR Government certificates of indebtedness	11	56,561	53,821
Financial assets at fair value through profit or loss	12	245,239	127,347
Investment securities	13	521,269	424,178
Advances to customers	14(a)	1,091,656	1,007,035
Amounts due from fellow subsidiaries	16	206,675	164,132
Interest in an associate	18	15,705	14,046
Property, plant and equipment	19	39,600	35,651
Goodwill and intangible assets	20	8,818	7,905
Current tax assets		–	53
Deferred tax assets	25	2,061	1,999
Other assets	21	73,249	84,674
		<u>2,456,789</u>	<u>2,118,648</u>
Liabilities			
Hong Kong SAR currency notes in circulation	11	56,561	53,821
Deposits and balances of banks and other financial institutions		54,387	37,564
Deposits from customers	22	1,736,729	1,530,112
Financial liabilities at fair value through profit or loss	24	148,226	96,549
Debt securities in issue	23	42,415	31,608
Amounts due to immediate holding company	16	41,750	30,655
Amounts due to fellow subsidiaries	16	102,748	76,962
Current tax liabilities		2,505	2,073
Deferred tax liabilities	25	897	775
Other liabilities	26	90,572	86,649
Subordinated liabilities	28	–	5,876
		<u>2,276,790</u>	<u>1,952,644</u>
Equity			
Share capital	29	65,025	65,025
Reserves	30	97,799	91,560
Shareholders' equity		162,824	156,585
Other equity instruments	29	16,733	8,983
Non-controlling interests		442	436
		<u>179,999</u>	<u>166,004</u>
		<u>2,456,789</u>	<u>2,118,648</u>

Approved and authorised for issue by the Board of Directors on 25 February 2021.

HUNG Pi Cheng Benjamin
Director

Gregory John POWELL
Director

The notes on pages 20 to 170 form part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2020***(Expressed in millions of Hong Kong dollars)*

	Share capital HK\$'M	Own credit adjustment reserve HK\$'M	Cash flow hedge reserve HK\$'M	FVOCI reserve – Debt HK\$'M	FVOCI reserve – Equity HK\$'M	Exchange reserve HK\$'M	Statutory reserves HK\$'M	Other reserves HK\$'M	Retained profits HK\$'M	Sub-total HK\$'M	Other equity instruments HK\$'M	Non- controlling interests HK\$'M	Total HK\$'M
At 1 January 2019	65,025	696	267	194	316	(7,328)	12,527	(4,372)	86,927	154,252	1,952	-	156,204
Issuance of other equity instruments, net of expenses	-	-	-	-	-	-	-	-	-	-	7,031	-	7,031
Total comprehensive income	-	(788)	(638)	585	(52)	(2,549)	-	-	14,819	11,377	-	(93)	11,284
Dividend paid ¹	-	-	-	-	-	-	-	-	(4,390)	(4,390)	-	-	(4,390)
Cash distributions to a fellow subsidiary ²	-	-	-	-	-	-	-	-	(4,552)	(4,552)	-	-	(4,552)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	(135)	(135)	-	-	(135)
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	33	33	-	529	562
Transfer from retained profits	-	-	-	-	-	-	1,020	-	(1,020)	-	-	-	-
At 31 December 2019	<u>65,025</u>	<u>(92)</u>	<u>(371)</u>	<u>779</u>	<u>264</u>	<u>(9,877)</u>	<u>13,547</u>	<u>(4,372)</u>	<u>91,682</u>	<u>156,585</u>	<u>8,983</u>	<u>436</u>	<u>166,004</u>
Redemption of preference shares ³	-	-	-	-	-	-	-	-	(3,880)	(3,880)	-	-	(3,880)
Issuance of other equity instruments, net of expenses	-	-	-	-	-	-	-	-	-	-	7,750	-	7,750
Total comprehensive income	-	37	15	444	(75)	4,032	-	-	10,503	14,956	-	(158)	14,798
Dividend paid ¹	-	-	-	-	-	-	-	-	(4,845)	(4,845)	-	-	(4,845)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	-	8	8	-	-	8
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	164	164
Transfer from retained profits	-	-	-	-	-	-	1,763	-	(1,763)	-	-	-	-
At 31 December 2020	<u>65,025</u>	<u>(55)</u>	<u>(356)</u>	<u>1,223</u>	<u>189</u>	<u>(5,845)</u>	<u>15,310</u>	<u>(4,372)</u>	<u>91,705</u>	<u>162,824</u>	<u>16,733</u>	<u>442</u>	<u>179,999</u>

¹ During the year ended 31 December 2020, the directors had declared and paid an ordinary dividend of HK\$0.77 per each Class A, B, C and D ordinary shares totalling HK\$4,093 million (2019: HK\$0.74 per each Class A, B, C and D ordinary shares totalling HK\$3,904 million). Dividends of HK\$411 million (2019: HK\$144 million), HK\$242 million (2019: HK\$244 million) and HK\$99 million (2019: HK\$98 million) were paid in respect of the US\$900 million floating rate undated Additional Tier 1 Capital Securities, the US\$500 million 6.25% perpetual non-cumulative convertible preference shares and the US\$250 million 5% perpetual non-cumulative subordinated capital securities classified as equity, respectively.

² Cash distributions of HK\$4,083 million and HK\$469 million were made by Standard Chartered NEA Limited (“SC NEA”) and Standard Chartered Bank (Taiwan) Limited (“SCB Taiwan”) respectively, to a fellow subsidiary prior to the Bank’s acquisition of SC NEA and SCB Taiwan on 1 October 2019.

³ During the year ended 31 December 2020, the Bank redeemed the US\$500 million of its own perpetual non-cumulative convertible preference shares at a total consideration of HK\$3,880 million out of its distributable profits.

The notes on pages 20 to 170 form part of these consolidated financial statements.

Consolidated cash flow statement
For the year ended 31 December 2020
(Expressed in millions of Hong Kong dollars)

	Note	2020 HK\$'M	2019 HK\$'M
Operating activities			
Profit before taxation		12,841	17,911
Adjustments for:			
Credit impairment		2,707	1,648
Advances written off net of recoveries		54	699
Unwinding of discount on loan impairment provision		(69)	(82)
Other impairment		1,238	818
Depreciation on property, plant and equipment		3,393	3,478
Amortisation of intangible assets		777	550
Net gains on disposal and write off of property, plant and equipment		(205)	(635)
Net losses on revaluation of investment properties		137	96
Share of profit of an associate		(1,263)	(1,934)
Interest expense on subordinated liabilities and other borrowings		1,338	1,148
Interest expense on lease liabilities		155	175
Expense in respect of the defined benefits plans		277	272
Fair value losses transferred from reserves on cash flow hedges		61	18
Exchange translation on subordinated liabilities		390	(65)
Dilution loss on interest in an associate		335	–
		22,166	24,097
(Increase)/decrease in operating assets:			
Advances to banks and other financial institutions with original maturity beyond three months		8,201	20,475
Financial assets at fair value through profit or loss		(117,892)	(23,566)
Investment securities		(82,697)	(74,891)
Gross advances to customers		(56,381)	(90,394)
Amounts due from fellow subsidiaries		(42,863)	(50,543)
Other assets		8,050	(28,445)
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		16,831	(1,712)
Deposits from customers		174,200	85,886
Debt securities in issue		10,807	(4,042)
Financial liabilities at fair value through profit or loss		51,725	(4,315)
Amounts due to immediate holding company and fellow subsidiaries		28,260	2,866
Other liabilities		4,480	21,937
		24,887	(122,647)
Cash generated/(used in) from operations		24,887	(122,647)
Hong Kong income tax paid		(1,389)	(1,560)
Overseas income tax paid		(812)	(1,348)
		(2,201)	(2,908)
Net cash generated/(used in) from operating activities		22,686	(125,555)

Consolidated cash flow statement (continued)**For the year ended 31 December 2020***(Expressed in millions of Hong Kong dollars)*

	Note	2020 HK\$'M	2019 HK\$'M
Investing activities			
Payment for purchase of property, plant and equipment		(7,757)	(2,906)
Payment for purchase of intangible assets		(1,297)	(1,632)
Proceeds from disposal of property, plant and equipment		3,359	4,289
Dividends received from an associate		–	542
		<u> </u>	<u> </u>
Net cash (used in)/generated from investing activities		<u>(5,695)</u>	<u>293</u>
Financing activities			
Issuance of subordinated liabilities		10,228	28,165
Issuance of other equity instrument		7,750	7,031
Contribution from non-controlling interest		164	562
Cash contributions to a fellow subsidiary		–	(4,552)
Dividend paid to shareholders of the Bank		(4,845)	(4,390)
Redemption of preference shares		(3,880)	–
Payment of lease liabilities		(1,402)	(1,234)
Interest paid on subordinated liabilities		(1,340)	(1,142)
Redemption of subordinated liabilities		(5,876)	–
		<u> </u>	<u> </u>
Net cash generated from financing activities		<u>799</u>	<u>24,440</u>
Net increase/(decrease) in cash and cash equivalents		17,790	(100,822)
Cash and cash equivalents at 1 January		180,538	284,542
Effect of foreign exchange		5,834	(3,182)
		<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	31(a)	<u>204,162</u>	<u>180,538</u>
Cash flows from operating activities include:			
Interest received		39,750	45,697
Interest paid		16,238	19,048
Dividends received		18	16
		<u> </u>	<u> </u>

The notes on pages 20 to 170 form part of these consolidated financial statements.

Notes to the consolidated financial statements

(Expressed in millions of Hong Kong dollars)

1 Principal activities

The principal activities of Standard Chartered Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (together referred to as the “Group”) are the provision of banking and related financial services.

2 Significant accounting policies

(a) Statement of compliance

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

The HKICPA/IASB has issued certain new and revised HKFRSs/IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and its interest in an associate.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through other comprehensive income, financial assets and liabilities (including derivatives) at fair value through profit or loss and investment properties, which are carried at fair value.

Assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less cost to sell.

The preparation of the consolidated financial statements in conformity with adopted HKFRS/IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs/IFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 40.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(c) Subsidiaries and non-controlling interests**

Subsidiaries are all entities, including structured entities (note 2(x)), which the Group controls. The Group controls an entity when it 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 investee. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 17.

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

In the Bank's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, if any.

(d) Associates

Associates are entities in respect of which the Group has significant influence, but not control, over the financial and operating policies and procedures. Details of the Group's interest in an associate are provided in note 18.

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investment in associates includes goodwill, if any, identified on acquisition and accumulated impairment losses.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(d) Associates (continued)

The Group's share of its associates' post-acquisition profits or losses are recognised in the consolidated income statement, and the share of post-acquisition movements in other comprehensive income are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the consolidated statement of financial position. When the Group's share of losses in an associate is equal to or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless they have incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates.

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

In the Bank's statement of financial position, investments in associates are stated at cost less impairment losses and dividends from pre-acquisition profits, if any, unless they are classified as assets held for sale.

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and contingent liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Goodwill and intangible assets". Goodwill on acquisitions of associates is included in "Interest in an associate".

Goodwill included in "Goodwill and intangible assets" is tested annually for impairment and carried at cost less any accumulated impairment losses. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. Note 20 sets out the major cash-generating units to which goodwill has been allocated.

(ii) Acquired intangibles

At the date of acquisition of a subsidiary or an associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(e) Intangible assets (continued)****(iii) Computer software**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits attributable to the asset that will flow from its use. Computer software costs are amortised on the basis of expected useful life (3 to 5 years). Costs associated with maintaining software are recognised as an expense as incurred.

(f) Investment properties

Investment properties are land and buildings which are owned either to earn rental income or for long term investments or for both. Investment properties are stated in the consolidated statement of financial position at fair value. Any gains or losses arising from a change in fair value or from the disposal of an investment property is recognised in the consolidated income statement.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings, leasehold land and leasehold improvements, are depreciated over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the lease.
- Equipment and motor vehicles, are depreciated over 3 to 15 years.
- Aircraft are depreciated up to 18 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Gains and losses on disposals are included in the consolidated income statement.

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in "Property, plant and equipment" with a corresponding liability to the lessor recognised in "Other liabilities", in accordance with the Group's lease accounting policy in note 2(h).

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(h) Leases**

Where the Group is the lessee

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

When the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable in the economic environment of the lease. The lease liability is recognised in 'Other liabilities'. A corresponding right-of-use asset equal to the lease liability, adjusted for any lease payments made at or before the commencement date, is recognised in 'Property, plant and equipment'. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in 'Operating expenses', and interest on the lease liability is recognised in 'interest expense'.

Where the Group is the lessor

Assets leased to customers under operating leases are included within property, plant and equipment and depreciated over their estimated useful lives. Rental income on these leased assets is recognised in the consolidated income statement on a straight-line basis unless another systematic basis is more representative.

(i) Financial instruments**Classification and measurement of financial instruments****Classification**

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****(1) Financial assets held at amortised cost and fair value through other comprehensive income (“FVOCI”)**

Debt instruments held at amortised cost or held at FVOCI have contractual terms that give rise to cash flows that are solely payments of principal and interest (“SPPI characteristics”). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify the consideration of the time value of money – e.g. periodical reset of interest rates.

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- how the performance of the product business line is evaluated and reported to the Group’s management;
- how managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- the risks that affect the performance of the business model and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****(1) Financial assets held at amortised cost and fair value through other comprehensive income (“FVOCI”) (continued)**

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows (“hold to collect”) are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (“hold to collect and sell”) are classified as held at FVOCI.

Both hold to collect and hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be both infrequent and insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model in contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group’s daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition at FVOCI on an instrument by instrument basis. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

(2) Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified as fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two sub-categories as follows:

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****(2) Financial assets and liabilities held at fair value through profit or loss (continued)**

- Trading, including
 - financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term; and
 - derivatives.
- Non-trading mandatorily at fair value through profit or loss, including
 - instruments (other than trading or derivatives) in a business which has a fair value business model;
 - hybrid financial assets that contain one or more embedded derivatives;
 - financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics; and
 - equity instruments that have not been designated as held at FVOCI.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (“accounting mismatch”).

To reduce accounting mismatches, the Group has designated certain financial liabilities at fair value through profit or loss where the liabilities either:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered with the intention of significantly reducing interest rate risk; or
- are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets.

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(3) Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, whilst financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of HKFRS 15/IFRS 15 – *Revenue from Contracts with Customers* ("HKFRS 15/IFRS 15").

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at that date. The fair value of a liability includes the risk that the Group will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers). Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified at amortised cost on settlement date.

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets and financial liabilities which are not subsequently measured at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****(3) Financial liabilities held at amortised cost (continued)**

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement**(1) Financial assets and financial liabilities held at amortised cost**

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see note 2(o)(i)). Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

(2) Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in the income statement. Changes in expected credit losses are recognised in the income statement and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss in reserve, are transferred to the income statement.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to the income statement.

(3) Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value (including contractual interest) recorded in "Net trading income" in the income statement unless the instrument is part of a cash flow hedging relationship.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****(4) Financial liabilities designated at fair value through profit or loss**

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value (including contractual interest) recognised in “Net trading income” in the income statement, other than that attributable to changes in own credit risk. Fair value changes attributable to own credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in the income statement.

The Group calculates own credit adjustment (“OCA”) on financial liabilities designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group’s OCA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improve. The Group’s OCA adjustments will reverse over time as its liabilities mature. An OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior unsecured credit spreads.

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group’s continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement except for equity instruments elected FVOCI and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired and this is evaluated both qualitatively and quantitatively.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in ‘other operating income’ except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income and are never recycled to the income statement.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates amongst other factors.

Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets ("POCI").

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments are recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the income statement.

Gains and losses arising from modifications for credit reasons are recorded as part of 'credit impairment'. Modification gains and losses arising for non-credit reasons are recognised either as part of "credit impairment" or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income.

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition.

Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

(1) Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in the income statement.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(i) Financial instruments (continued)****Reclassifications (continued)****(2) Reclassified from fair value through other comprehensive income**

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

(3) Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

(j) Hedge accounting

The Group has chosen to continue to apply hedging requirements under HKAS 39/IAS 39 *Financial instruments: recognition and measurement* rather than those of HKFRS 9/IFRS 9 *Financial instruments*. The accounting treatment of hedge transactions will differ according to the nature of the instrument hedged and whether the hedge qualifies as a hedging instrument for accounting purposes.

The Group designates certain derivatives as either:

- a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge)
- b) Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge)
- c) Hedges of the net investment of a foreign operation (net investment hedges)

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

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

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(j) Hedge accounting (continued)****(i) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. 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 amortised to the consolidated income statement over the remaining term to maturity of the hedged item.

(ii) Cash flow hedge

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

Amounts accumulated in equity are recycled to the consolidated income statement in the periods in which the hedged item affects the income statement.

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

(iii) Net investment hedge

Hedges of net investments are accounted for in a similar manner to cash flow hedges, with gains and losses on the effective portion of the hedges deferred in "Exchange reserve" in equity until the net investment is disposed of. The ineffective portion of the hedges is recognised in "Net trading income" immediately.

(k) Impairment

The Group's expected credit losses ("ECL") calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining ECL include:

- the Group's criteria for assessing if there has been a significant increase in credit risk;
- development of ECL models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources including client-facing employees and on external market information.

ECL are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment (continued)

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Measurement

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default ("PD") with the loss given default ("LGD") with the expected exposure at the time of default ("EAD"). For less material Retail loan portfolios, the Group has adopted less sophisticated approaches based on historical roll rates or loss rates.

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices amongst others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. Both in respect of determining the PD, LGD and EAD and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment (continued)

Measurement (continued)

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance).

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired (“POCI”) instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

<u>Instruments</u>	<u>Location of expected credit loss provisions</u>
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value ¹
Debt instruments at FVOCI	Other comprehensive income (FVOCI Reserve) ²
Loan commitments and financial guarantees	Other liabilities ³

¹ POCI assets do not attract an ECL provision on initial recognition. An ECL provision will be recognised only if there is an increase in expected credit losses from that considered at initial recognition.

² Debt securities classified as FVOCI are held at fair value. The ECL attributed to these instruments is held as a separate reserve within OCI and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

³ ECL on loan commitments and financial guarantees are recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the ECL on these components, ECL amounts on the loan commitment are recognised together with ECL amounts on the financial asset. To the extent the combined ECL exceeds the gross carrying amount of the financial asset, the ECL is recognised as a liability provision.

Recognition

(1) 12 months expected credit losses (stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(k) Impairment (continued)****Recognition (continued)****(2) Significant increase in credit risk (stage 2)**

If a financial asset experiences a significant increase in credit risk (“SICR”) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute ECL, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been a significant increase in the forward-looking PD since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such an account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management’s ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances amongst other factors.

(3) Credit impaired (or defaulted) exposures (stage 3)

Financial assets are considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. Financial assets that are credit impaired (or in default) included those that are past due for more than 90 days in respect of principal and/or interest. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(k) Impairment (continued)****Recognition (continued)****(3) Credit impaired (or defaulted) exposures (stage 3) (continued)**

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower’s financial difficulty, the lenders of the borrower have granted the borrower concessions that lenders would not otherwise consider, which include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower’s obligations;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument’s original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Expert credit judgement

Instruments graded Credit Grade 13 or Credit Grade 14 are regarded as Non-Performing Loans, i.e. stage 3 or credit impaired exposures.

For individually significant financial assets within stage 3, Group Special Asset Management (“GSAM”) will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group’s legal position relative to other claimants and any renegotiation/forbearance/modification options. The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment (continued)

Recognition (continued)

Expert credit judgement (continued)

For financial assets which are not individually significant, such as the Retail portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail banking clients are considered credit-impaired when they are more than 90 days past due. Retail products are also considered credit-impaired if the borrower files for bankruptcy or other forbearance programmes, the borrower is deceased or the business is closed in the case of a small business if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit-impaired, the account may be also be credit-impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

Where a model's performance breaches the monitoring thresholds or validation standards, an assessment is completed to determine whether an ECL Post Model Adjustment ("PMA") is required to correct for the identified model issue. PMAs will be removed when the models are updated to correct for the identified model issue or the estimates return to being within the monitoring thresholds.

The unprecedented volatility in the macroeconomic forecasts seen over 2020 has meant that a number of the Group's ECL models are now operating outside the boundaries to which they were calibrated. As a result, the Group has made adjustments to the modelled output to ensure the resulting ECL remains unbiased and appropriately reflects the analysis (retail) and an evaluation of ECL coverage at an exposure level (wholesale). These adjustments will be removed once the quarterly macroeconomic forecasts and associated model estimates become less volatile in line with historical norms.

Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit-impaired and is considered forborne.

These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment (continued)

Modified financial instruments (continued)

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in ECL recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to customers' financial difficulties.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in the income statement within impairment and the gross carrying value of the loan reduced by the same amount.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written-off against the related loan provision. Such loans are written-off after all the necessary procedures have been completed and it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in the income statement.

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12-month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

Financial assets within stage 2 or stage 3 can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(k) Impairment (continued)****Write-offs of credit impaired instruments and reversal of impairment (continued)**

Where a significant decrease in credit risk is determined using quantitative measures, the instrument will be automatically transferred back to stage 1 when the original PD-based transfer criteria are no longer met. Where instruments are transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring those actions to be resolved before loans are reclassified to stage 1.

A forbore loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two year probation period is met.

In order for a forbore loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forbore contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against the amount outstanding

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

(l) Offsetting financial transactions

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

(m) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

(n) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and balances at central banks, short-term investment securities, advances to banks and other financial institutions, and amounts due from fellow subsidiaries.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(o) Revenue recognition

(i) Net interest income and other gains or losses arising from financial instruments

Interest income for financial assets held at either FVOCI or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider expected credit losses. The calculation of effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability and all other premiums or discounts.

Interest income for financial assets that are either held at FVOCI or amortised cost that have become credit impaired subsequent to initial recognition (stage 3) and have had amounts written off, is recognised using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net trading income.

Gains and losses arising from changes in the fair value of financial assets and liabilities held at fair value through profit or loss, as well as any interest receivable or payable, are included in the consolidated income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of financial assets held at fair value through other comprehensive income other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement, except for the investments in equity irrevocably designated at fair value through other comprehensive income.

Dividends on equity instruments are recognised in the income statement within other operating income when the Group's right to receive payment is established. Foreign exchange gains and losses on monetary items are recognised in net trading income.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(o) Revenue recognition (continued)****(ii) Fees and commissions**

Fees and commissions charged for services provided by the Group are recognised as and when the service is completed or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

(p) Income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, are credited or charged directly to equity and are subsequently recognised in the consolidated income statement together with the current or deferred gain or loss.

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities for which a legal right of set off exists.

(q) Provisions

The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(q) Provisions (continued)**

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

(r) Employee benefits**(i) Short term employee benefits**

Salaries, annual bonuses, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Retirement benefit obligations

The Group operates a number of defined contribution and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the net liability recognised in the consolidated statement of financial position represents the present value of the defined benefit obligations at the reporting date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation.

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the consolidated statement of other income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the net interest expense on the net defined benefit liability, are charged to operating expenses.

The Group determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(r) Employee benefits (continued)****(iii) Share-based compensation**

The Group's immediate holding company, Standard Chartered PLC ("SC PLC"), operates equity-settled share-based compensation plans in which the Group's employees participate. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For all other awards the expense is recognised over the period from the start of the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the consolidated income statement at the time of cancellation.

(s) Translation of foreign currencies

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the consolidated income statement.

Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the consolidated income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

The results and financial position of all foreign operations that have a functional currency different from the Group's presentation currency are accounted for as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the reporting date.
- income and expenses for each consolidated income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, the exchange differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)**(t) Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, directors, significant shareholders and/or their close family members) or other entities and include (i) associates and joint ventures of SC PLC and its subsidiaries ("SC PLC Group"), (ii) entities which are under the significant influence of related parties of the Group where those parties are individuals, (iii) post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, and (iv) entities or any member of the Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(u) Segment reporting

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

(v) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain on the consolidated statement of financial position; the counterparty liability is included in "Deposits and balances of banks and other financial institutions", "Deposits from customers" or "Amounts due to immediate holding company/fellow subsidiaries", as appropriate. Securities purchased under agreements to re-sell ("reverse repos") are not recognised on the consolidated statement of financial position and the consideration paid is recorded in "Advances to customers", "Advances to banks and other financial institutions" or "Amounts due from fellow subsidiaries" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement.

Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

(w) Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available for sale in their present condition; and (iii) their sale is highly probable within 12 months from the date of classification.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal groups) are measured in accordance with the applicable accounting policies described above.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(x) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Contractual arrangements determine the rights and therefore relevant activities of the structured entity. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their activities. Structured entities are consolidated when the substance of the relationship between the Group and that of the structured entity indicates the Group has power over the contractual relevant activities of the structured entity, are exposed to variable returns, and can use that power to affect the variable return exposure. In determining whether to consolidate a structured entity, the Group takes into account their ability to direct the relevant activities of the structured entity. Control over relevant activities is generally evidenced through a unilateral right to liquidate the structured entity, investment in a substantial proportion of the securities issued by the structured entity or where the Group holds specific subordinated securities that embody certain controlling rights. The Group may further consider relevant activities embedded within contractual arrangements such as call options which give the practical ability to direct the entity, special relationships between the structured entity and investors, and if a single investor has a large exposure to variable returns of the structured entity.

(y) Other equity instruments

Financial instruments including preference share capital issued are classified as equity, when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Securities, including Additional Tier 1 Capital Securities, which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are declared.

3 Changes in accounting policies

Amendments to HKFRS/IFRS 16: Covid-19-Related Rent Concessions

The amendments are effective for annual reporting periods beginning on or after 1 June 2020, but the Group has elected to early adopt the amendments for the year ended 31 December 2020.

The amendments provide lessees of premises and equipment with a practical expedient that permits them not to assess whether a rent concession granted as a direct consequence of the Covid-19 pandemic is accounted for as a lease modification. Entities may therefore account for such rent concessions by reducing the lease liability by the value of the concession, with a corresponding gain recorded in other income. A rent concession is only deemed a direct consequence of Covid-19 if all the following criteria are met:

- A change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due in 2020 (this includes the case where the change results in reduced lease payments in 2020 and increased lease payments beyond 2020); and
- There is no substantive change to other terms and conditions of the lease.

The amendments have not had a material effect on the Group's financial statements, and do not result in any adjustment to opening retained earnings as of 1 January 2020.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***4 Operating profit**

The operating profit for the year is stated after taking into account the following:

	2020 HK\$'M	2019 HK\$'M
(a) Interest income		
Interest income arising from financial assets:		
– amortised cost ¹	30,802	38,746
– measured at fair value through other comprehensive income	5,715	7,393
	<u>36,517</u>	<u>46,139</u>

¹ The amount includes interest income from unwinding of discount on impairment provisions of HK\$69 million (2019: HK\$82 million), and fair value losses of HK\$22 million transferred from reserve on cash flow hedges (2019: losses of HK\$66 million).

	2020 HK\$'M	2019 HK\$'M
(b) Interest expense		
Interest expense arising from financial liabilities measured at amortised cost ¹	12,784	18,675
Interest expenses on lease liabilities	155	175
	<u>12,939</u>	<u>18,850</u>

¹ The amount includes fair value losses of HK\$39 million transferred from reserve on cash flow hedges (2019: gains of HK\$48 million).

	2020 HK\$'M	2019 HK\$'M (restated)
(c) Net fee and commission income		
Net fee and commission income in the consolidated income statement includes the following:		
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 at fair value through profit or loss:		
– fee and commission income	2,058	2,433
– fee and commission expense	399	416
	<u>1,659</u>	<u>2,017</u>
Net fee and commission income from trust and other fiduciary activities that results in the holding of assets on behalf of customers		
– fee and commission income	1,484	1,142
– fee and commission expense	298	263
	<u>1,186</u>	<u>879</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***4 Operating profit (continued)**

	2020 HK\$'M	2019 HK\$'M
(d) Net trading income		
Net gains on instruments held for trading	7,909	7,228
Net gain on financial assets mandatorily at fair value through profit or loss other than held for trading	427	812
Net losses on financial instruments designated at fair value through profit or loss	(302)	(1,352)
	<u>8,034</u>	<u>6,688</u>

	2020 HK\$'M	2019 HK\$'M
(e) Other operating income		
Rental income from operating lease assets	3,620	3,818
Dividend income from financial assets at fair value through other comprehensive income	18	16
Net gains on disposal of debt securities at fair value through other comprehensive income	604	196
Net gains on disposal and write-off of property, plant and equipment	205	635
Net gains on disposal of financial instruments measured at amortised cost	27	27
Net losses on revaluation of investment properties (note 19)	(137)	(96)
Dilution loss on interest in an associate	(335)	–
Others	250	259
	<u>4,252</u>	<u>4,855</u>

	2020 HK\$'M	2019 HK\$'M
(f) Operating expenses		
Staff costs		
– contributions to defined contribution plans	457	557
– expense in respect of the defined benefits plan (note 27(e))	277	272
– net share-based payment expenses	146	219
– salaries and other staff costs	12,806	13,407
Depreciation (note 19)	3,393	3,478
Premises and equipment expense, excluding depreciation	1,262	1,274
Amortisation		
– other intangible assets (note 20)	777	550
Auditor's remuneration	59	70
Others	10,251	9,962
	<u>29,428</u>	<u>29,789</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***5 Impairment charges**

	2020 HK\$'M	2019 HK\$'M
(a) Credit impairment		
Net expected credit loss charges/(releases) on:		
– advances to banks and other financial institutions	(1)	13
– advances to customers	2,576	1,642
– debt securities at amortised cost	3	1
– debt securities at fair value through other comprehensive income	10	–
– loan commitments and financial guarantees	119	(8)
	<u>2,707</u>	<u>1,648</u>
(b) Other impairment		
Charges for property, plant and equipment (note 19)	411	826
Charges for capitalised software and other intangible assets (note 20)	15	3
Charges for assets held for sale	828	–
Other assets	(16)	(11)
	<u>1,238</u>	<u>818</u>

6 Taxation in the consolidated income statement**(a) Taxation in the consolidated income statement represents:**

	2020 HK\$'M	2019 HK\$'M
<i>Current tax</i>		
Hong Kong profits tax	1,297	1,612
Overseas taxation	1,434	1,213
(Over)/under-provision in respect of prior years	(104)	73
	<u>2,627</u>	<u>2,898</u>
<i>Deferred tax (note 25)</i>		
(Reversal)/origination of temporary differences	(234)	622
Under/(over)-provision in respect of prior years	244	(241)
	<u>10</u>	<u>381</u>
	<u>2,637</u>	<u>3,279</u>

The provision for Hong Kong profits tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***6 Taxation in the consolidated income statement (continued)****(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:**

	2020 HK\$'M	2019 HK\$'M
Profit before taxation	12,841	17,911
Notional tax on profit before taxation, calculated at Hong Kong profits tax rate of 16.5%	2,119	2,955
Tax effect of non-deductible expenses	480	530
Tax effect of non-taxable revenue	(649)	(973)
Under/(over)-provision in prior years	140	(168)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	479	523
Others	68	412
Actual tax expense	2,637	3,279

7 Directors' remuneration

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

	2020 HK\$'M	2019 HK\$'M
Fees	4	4
Short-term employment benefits	45	39
Post-employment benefits	1	1
Equity compensation benefits	9	11
	59	55

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

8 Segmental reporting

The Group's segmental reporting is prepared in accordance with HKFRS/IFRS 8 Operating Segments and is reported consistently with the internal performance framework and as presented to the Group's Management Team. This includes a client segments view and a geographical segments view.

Client segments

The Group manages its businesses by four client segments: Corporate & Institutional Banking, Commercial Banking, Private Banking and Retail Banking:

- **Corporate & Institutional Banking** supports clients with their transaction banking, corporate finance, financial markets and borrowing needs, providing solutions to clients in some of the world's fastest-growing economies and most active trade corridors. The Group's clients include large corporations, governments, and banks.
- **Commercial Banking** serves local corporations and medium-sized enterprises. The Group aims to be its clients' main international bank, providing a full range of international financial solutions in areas such as trade finance, cash management, financial markets and corporate finance.
- **Private Banking** offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high net worth individuals across the Group's footprint.
- **Retail Banking** serves individuals and small businesses with a focus on affluent and emerging affluent. The Group provides digital banking services with a human touch to its clients across deposits, payments, financing products and wealth management, as well as supporting client's business banking needs.

Besides the four client segments, Treasury Markets and certain items which are not managed directly by a client segment, including unallocated central costs are reported in "Central & Other Items". Financial information is presented internally to the Group's senior management using these segments.

Geographical segments

The Group comprises four geographical segments, Hong Kong, Mainland China, Taiwan and Korea. Geographical segment is classified by the location of the principal operations of the subsidiary.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***8 Segmental reporting (continued)****(a) Segment results, assets and liabilities**

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

Client segments

	2020					Consolidated HK\$'M
	Corporate & Institutional Banking HK\$'M	Commercial Banking HK\$'M	Private Banking HK\$'M	Retail Banking HK\$'M	Central & Other Items HK\$'M	
Operating income						
– Net interest income	6,766	2,257	786	13,876	(1,128)	22,557
– Other operating income	10,856	1,470	943	9,308	868	23,445
	<u>17,622</u>	<u>3,727</u>	<u>1,729</u>	<u>23,184</u>	<u>(260)</u>	<u>46,002</u>
Operating expenses ¹	<u>(8,628)</u>	<u>(2,547)</u>	<u>(1,352)</u>	<u>(15,781)</u>	<u>(247)</u>	<u>(28,555)</u>
Operating profit before impairment	8,994	1,180	377	7,403	(507)	17,447
Impairment charges	(1,262)	(248)	14	(1,635)	(34)	(3,165)
Share of profit of an associate	–	–	–	–	1,263	1,263
Profit before taxation²	<u>7,732</u>	<u>932</u>	<u>391</u>	<u>5,768</u>	<u>722</u>	<u>15,545</u>
Segment assets	<u>750,184</u>	<u>117,649</u>	<u>39,805</u>	<u>645,625</u>	<u>774,449</u>	<u>2,327,712</u>
Segment liabilities	<u>878,476</u>	<u>250,017</u>	<u>49,280</u>	<u>849,778</u>	<u>150,339</u>	<u>2,177,890</u>

¹ Operating expenses in the Corporate & Institutional Banking segment included depreciation charges of HK\$1,523 million for commercial aircraft leased to customers under operating leases (2019: HK\$1,425 million).

² The Group has decided to exit the vessels leasing business, the Corporate & Institutional Banking segment does not include the profit before tax for commercial vessels leased to customers amounting to losses of HK\$321 million (2019: HK\$467 million).

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***8 Segmental reporting (continued)****(a) Segment results, assets and liabilities (continued)****Client segments (continued)**

	2019					Consolidated HK\$'M
	Corporate & Institutional Banking HK\$'M	Commercial Banking HK\$'M	Private Banking HK\$'M	Retail Banking HK\$'M	Central & Other Items HK\$'M	
Operating income						
– Net interest income	7,908	3,114	988	14,405	(829)	25,586
– Other operating income	9,428	1,489	819	9,128	1,139	22,003
	17,336	4,603	1,807	23,533	310	47,589
Operating expenses ¹	(8,777)	(2,979)	(1,428)	(15,728)	(45)	(28,957)
Operating profit before impairment	8,559	1,624	379	7,805	265	18,632
Impairment charges	(196)	(192)	(20)	(1,259)	(12)	(1,679)
Share of profit of an associate	–	–	–	–	1,934	1,934
Profit before taxation²	8,363	1,432	359	6,546	2,187	18,887
Segment assets	656,206	110,287	44,726	578,287	644,749	2,034,255
Segment liabilities	731,064	168,501	51,914	785,525	148,887	1,885,891

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***8 Segmental reporting (continued)****(a) Segment results, assets and liabilities (continued)****Geographical segments**

	2020				Consolidated Total HK\$'M
	Hong Kong HK\$'M	Mainland China HK\$'M	Taiwan HK\$'M	Korea HK\$'M	
Operating income					
– Net interest Income	12,175	4,232	1,199	4,951	22,557
– Other operating income	14,787	2,954	2,540	3,164	23,445
	26,962	7,186	3,739	8,115	46,002
Operating expenses	(15,188)	(5,175)	(2,586)	(5,606)	(28,555)
Operating profit before impairment	11,774	2,011	1,153	2,509	17,447
Impairment charges	(1,968)	(876)	(9)	(312)	(3,165)
Share of profit of an associate	–	1,263	–	–	1,263
Profit before taxation	9,806	2,398	1,144	2,197	15,545
Segment assets	1,286,964	324,315	179,762	536,671	2,327,712
Segment liabilities	1,246,725	284,662	178,722	467,781	2,177,890
	2019				Consolidated Total HK\$'M
	Hong Kong HK\$'M	Mainland China HK\$'M	Taiwan HK\$'M	Korea HK\$'M	
Operating income					
– Net interest Income	15,034	4,402	967	5,183	25,586
– Other operating income	14,328	2,432	2,812	2,431	22,003
	29,362	6,834	3,779	7,614	47,589
Operating expenses	(15,145)	(5,220)	(2,567)	(6,025)	(28,957)
Operating profit before impairment	14,217	1,614	1,212	1,589	18,632
Impairment charges	(908)	(639)	(23)	(109)	(1,679)
Share of profit of an associate	–	1,934	–	–	1,934
Profit before taxation	13,309	2,909	1,189	1,480	18,887
Segment assets	1,223,978	235,930	150,608	423,739	2,034,255
Segment liabilities	1,164,266	210,319	141,988	369,318	1,885,891

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***8 Segmental reporting (continued)****(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities**

	2020 HK\$'M	2019 HK\$'M
Operating income		
Reportable segment revenue	46,002	47,589
Income relating to financial market products	(2,720)	(2,108)
Cost of free funds	1,753	2,323
Others	(84)	428
	<u>44,951</u>	<u>48,232</u>
	2020 HK\$'M	2019 HK\$'M
Profit before taxation		
Reportable segment profit before taxation	15,545	18,887
Income relating to financial market products	(2,720)	(2,108)
Cost of free funds	1,753	2,323
Reallocation of impairment charges	(776)	(420)
Others	(961)	(771)
	<u>12,841</u>	<u>17,911</u>
	2020 HK\$'M	2019 HK\$'M
Assets		
Reportable segment assets	2,327,712	2,034,255
Assets of group companies not included in consolidated total assets	(7,409)	(19,059)
Amounts due from fellow subsidiaries	264,898	201,927
Others	(128,412)	(98,475)
	<u>2,456,789</u>	<u>2,118,648</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***8 Segmental reporting (continued)****(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities (continued)**

	2020 HK\$'M	2019 HK\$'M
Liabilities		
Reportable segment liabilities	2,177,890	1,885,891
Liabilities of group companies not included in consolidated total liabilities	(1,241)	(1,369)
Amounts due to immediate holding company and fellow subsidiaries	157,761	128,633
Others	(57,620)	(60,511)
	<u>2,276,790</u>	<u>1,952,644</u>
Total liabilities	<u>2,276,790</u>	<u>1,952,644</u>

Income and profit before taxation recognised in the consolidated financial statements represent an arm's length compensation for the services provided and risks borne. For internal management reporting purposes, income and profit before taxation are allocated on a global perspective. In addition, for internal management reporting purposes, a charge is allocated to reportable segments for the use of interest-free funds.

Reportable segment assets and liabilities include assets and liabilities which are not booked on the Group's consolidated statement of financial position but which contribute to the reportable segment's income and profit before taxation.

9 Cash and balances at central banks

	2020 HK\$'M	2019 HK\$'M
Cash in hand	5,326	5,074
Balances with central banks	61,314	63,475
	<u>66,640</u>	<u>68,549</u>

10 Advances to banks and other financial institutions

	2020 HK\$'M	2019 HK\$'M
Gross advances to banks and other financial institutions		
– maturing one month	64,639	66,971
– maturing one month to one year	51,392	61,547
– maturing one year to five years	13,311	767
	<u>129,342</u>	<u>129,285</u>
Less: Expected credit loss provision (note 15)	(26)	(27)
	<u>129,316</u>	<u>129,258</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***11 Hong Kong SAR Government certificates of indebtedness and currency notes in circulation**

The Hong Kong Special Administrative Region currency notes in circulation are secured by the deposit of funds in respect of which the Government of Hong Kong Special Administrative Region certificates of indebtedness are held.

12 Financial assets at fair value through profit or loss

	2020			Total HK\$'M
	<i>Trading assets HK\$'M</i>	<i>Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M</i>	<i>Financial assets designated at fair value through profit or loss HK\$'M</i>	
Debt securities:				
– Treasury bills	11,817	–	–	11,817
– Certificates of deposit held	4,206	–	–	4,206
– Other debt securities	84,165	808	1,985	86,958
	<u>100,188</u>	<u>808</u>	<u>1,985</u>	<u>102,981</u>
Equity securities	10,317	419	–	10,736
Advances to customers and banks	20,972	40,035	–	61,007
Positive fair values of derivatives	70,515	–	–	70,515
	<u>201,992</u>	<u>41,262</u>	<u>1,985</u>	<u>245,239</u>
	2019			Total HK\$'M
	<i>Trading assets HK\$'M</i>	<i>Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M</i>	<i>Financial assets designated at fair value through profit or loss HK\$'M</i>	
Debt securities:				
– Treasury bills	12,275	–	–	12,275
– Certificates of deposit held	6,758	–	–	6,758
– Other debt securities	46,776	799	2,162	49,737
	<u>65,809</u>	<u>799</u>	<u>2,162</u>	<u>68,770</u>
Equity securities	928	571	–	1,499
Advances to customers and banks	9,046	20,064	–	29,110
Positive fair values of derivatives	27,968	–	–	27,968
	<u>103,751</u>	<u>21,434</u>	<u>2,162</u>	<u>127,347</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***13 Investment securities**

	2020 HK\$'M	2019 HK\$'M
At fair value through other comprehensive income		
Debt securities		
– Treasury bills	80,148	93,462
– Certificates of deposit held	71,210	49,380
– Other debt securities	329,836	264,490
	<u>481,194</u>	<u>407,332</u>
Equity shares	978	435
	<u>482,172</u>	<u>407,767</u>
	-----	-----
At amortised cost		
Debt securities		
– Treasury bills	1,213	1,343
– Other debt securities	37,901	15,081
Less: Expected credit loss provision (note 15)	(17)	(13)
	<u>39,097</u>	<u>16,411</u>
	-----	-----
	<u>521,269</u>	<u>424,178</u>
	=====	=====

14 Advances to customers

	2020 HK\$'M	2019 HK\$'M
(a) Advances to customers		
Gross advances to customers	1,094,573	1,009,882
Trade bills	2,634	1,884
	<u>1,097,207</u>	<u>1,011,766</u>
	-----	-----
Less: Expected credit loss provision (note 15)	(5,551)	(4,731)
	<u>1,091,656</u>	<u>1,007,035</u>
	=====	=====

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***14 Advances to customers (continued)**

	2020 HK\$'M	2019 HK\$'M
(b) Impaired advances to customers		
Gross impaired advances to customers	7,327	5,250
Less:		
Stage 3 expected credit loss provision (note 15)	<u>(3,050)</u>	<u>(2,642)</u>
	<u>4,277</u>	<u>2,608</u>
Gross impaired advances to customers as a % of gross advances to customers	<u>0.67%</u>	<u>0.52%</u>
Fair value of collateral held against the covered portion of impaired advances to customers	3,189	2,279
Covered portion of impaired advances to customers	2,239	1,139
Uncovered portion of impaired advances to customers	<u>5,088</u>	<u>4,111</u>

The covered portion of impaired advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***15 Analysis of expected credit loss provisions on financial instruments by stage**

	At 31 December 2020			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Advances to banks and other financial institutions (note 10)	26	–	–	26
– Advances to customers (note 14)	1,577	924	3,050	5,551
– Debt securities at amortised cost (note 13)	16	1	–	17
– Debt securities at fair value through other comprehensive income ¹	29	–	–	29
– Other assets	6	–	2	8
– Loan commitments and financial guarantees (note 26)	151	131	4	286
	<u>1,805</u>	<u>1,056</u>	<u>3,056</u>	<u>5,917</u>
	At 31 December 2019			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Advances to banks and other financial institutions (note 10)	14	13	–	27
– Advances to customers (note 14)	1,272	817	2,642	4,731
– Debt securities at amortised cost (note 13)	12	1	–	13
– Debt securities at fair value through other comprehensive income ¹	19	–	–	19
– Loan commitments and financial guarantees (note 26)	114	40	4	158
	<u>1,431</u>	<u>871</u>	<u>2,646</u>	<u>4,948</u>

¹ These instruments are held at fair value on the balance sheet. The corresponding expected credit loss provision is held within FVOCI reserve – Debt.

16 Amounts due from/to fellow subsidiaries and amounts due to immediate holding company

During the year, the Bank entered into transactions with related parties in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, banking operation/outsourcing activities and off-balance sheet transactions.

The amounts of transactions with fellow subsidiaries during the year are set out below:

	2020 HK\$'M	2019 HK\$'M
Operating income	<u>991</u>	<u>1,225</u>
Operating expenses	<u>3,678</u>	<u>3,594</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***16 Amounts due from/to fellow subsidiaries and amounts due to immediate holding company (continued)**

The amounts due from/to fellow subsidiaries and amounts due to immediate holding company stated on the consolidated statement of financial position included the following:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Amounts due from fellow subsidiaries:		
Cash and balances with banks and other financial institutions	4,051	5,167
Placements with banks and other financial institutions	136,208	126,361
Financial assets at fair value through profit or loss		
– Positive fair values of trading derivatives	55,482	28,862
– Debt securities	–	13
Investment securities	5,171	–
Other assets		
– Positive fair values of hedging derivatives	661	870
– Others	5,102	2,859
	<u>206,675</u>	<u>164,132</u>
	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Amounts due to fellow subsidiaries:		
Deposits and balances of banks and other financial institutions	22,925	26,496
Financial liabilities at fair value through profit or loss		
– Negative fair values of trading derivatives	59,187	30,283
Subordinated liabilities issued by subsidiaries of the Bank ¹ :		
– US\$200 million 4.5% fixed rate subordinated debt 2024	1,573	1,558
– KRW600 billion 2.65% fixed rate subordinated debt 2029	4,486	4,190
Other liabilities		
– Negative fair values of hedging derivatives	4,763	2,584
– Others	9,814	11,851
	<u>102,748</u>	<u>76,962</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***16 Amounts due from/to fellow subsidiaries and amounts due to immediate holding company (continued)**

	2020 HK\$'M	2019 HK\$'M
Amounts due to immediate holding company:		
Subordinated liabilities issued by the Bank ¹ :		
<i>Tier 2 capital instruments:</i>		
– US\$800 million 4.30% fixed rate Tier 2 notes 2026	6,202	6,228
– US\$450 million floating rate Tier 2 notes 2029	3,489	3,503
– US\$250 million floating rate Tier 2 notes 2030	1,938	1,946
<i>Non-capital Loss-Absorbing Capacity (“LAC”) debt instruments:</i>		
– US\$1,000 million floating rate notes 2022	7,753	7,785
– US\$600 million floating rate notes 2022	4,651	4,671
– US\$600 million floating rate notes 2023	4,651	4,671
– US\$200 million 3.15% fixed rate note 2023	1,550	1,557
– US\$600 million 1.32% fixed rate notes 2023	4,651	–
– HK\$1,081 million floating rate notes 2023	1,081	–
Subordinated liabilities issued by the subsidiaries of the bank ¹ :		
<i>Tier 2 capital instruments:</i>		
– CNY 4,000 million 4.75% fixed rate Tier 2 notes 2030	4,741	–
Other liabilities		
– Negative fair values of hedging derivatives	973	127
– Others	70	167
	41,750	30,655
	41,750	30,655

¹ Interest expenses on these subordinated liabilities amounted to HK\$978 million (2019: HK\$782 million)

The contractual amounts of contingent liabilities and commitments to fellow subsidiaries are set out below:

	2020 HK\$'M	2019 HK\$'M
Financial guarantees and other credit related contingent liabilities	2,907	2,860
Loan commitments and other credit related commitments	84,315	98,676
	87,222	101,536
	87,222	101,536

17 Investments in subsidiaries of the Bank and interests in structured entities**(a) Investments in subsidiaries**

	<i>Bank</i>	
	2020 HK\$'M	2019 HK\$'M
Unlisted shares, at cost	48,503	47,394
Less: accumulated impairment provision	(632)	(735)
	47,871	46,659
	47,871	46,659

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***17 Investments in subsidiaries of the Bank and interests in structured entities (continued)****(a) Investments in subsidiaries (continued)**

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

<i>Name of company</i>	<i>Place of incorporation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest held by the Bank</i>	<i>Principal activity</i>
Standard Chartered Bank (China) Limited	Mainland China	10,727,000,000 ordinary shares	100%	Banking and related financial services
Standard Chartered NEA Limited	United Kingdom	4,205,165,153 ordinary shares of US\$1 each	100%	Investment holdings
Standard Chartered Bank (Korea) Limited	Republic of Korea	262,608,618 ordinary shares of KRW 5,000 each*	100%	Banking and related financial services
Standard Chartered Bank (Taiwan) Limited	Taiwan	2,910,571,976 ordinary shares of TWD10 each*	100%	Banking and related financial services
Mox Bank Limited	Hong Kong	208,012,000 ordinary shares of HK\$10 each	65.1%	Banking and related financial services
Standard Chartered Leasing Group Limited	Hong Kong	70,030,000 ordinary shares of US\$1 each	100%	Investment holdings
Pembroke Aircraft Leasing Holdings Limited	Ireland	10,000 ordinary shares of US\$1 each**	100%	Aircraft leasing
Marina Leasing Limited	Hong Kong	229,010,000 ordinary shares of US\$1 each**	100%	Ship leasing

* held by Standard Chartered NEA Limited

** held by Standard Chartered Leasing Group Limited

(b) Interests in consolidated and unconsolidated structured entities**Consolidated entity**

A structured entity is consolidated where the Group controls the structured entity. The following table presents the Group's interests in structured entities.

	<i>2020</i> <i>Total assets</i> <i>HK\$'M</i>	<i>2019</i> <i>Total assets</i> <i>HK\$'M</i>
Aircraft and ship leasing	34,895	33,238
Assets – backed securitisation	5,180	2,731

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***17 Investments in subsidiaries of the Bank and interests in structured entities (continued)****(b) Interests in consolidated and unconsolidated structured entities (continued)****Unconsolidated entity**

An unconsolidated structured entity is a structured entity that is not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions. An interest in a structured entity creates variability of the returns of the Group arising from the performance of the structured entities. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the structured entity. As at 31 December 2020, investment securities amounting to HK\$2,103 million (2019: HK\$638 million) are recognised in the financial statements relating to variable interests held in unconsolidated structured entities.

18 Interest in an associate

	2020 HK\$'M	2019 HK\$'M
Share of net assets	<u>15,705</u>	<u>14,046</u>

<i>Name of associate</i>	<i>Place of establishment and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
China Bohai Bank Company Limited ("Bohai")	The People's Republic of China	17,762,000,000 ordinary shares of RMB1 each	16.26%	Provision of banking and related financial services ¹

¹ Bohai is a strategic partner for the Group to develop its China business.

Bohai is considered to be an associate of the Group because of the significant influence the Group is able to exercise over the management of the company and its financial and operating policies. Significant influence is evidenced largely through the representation on the Board of Directors in Bohai. The Group applies the equity method of accounting for its investment in Bohai and has taken advantage of the provision contained in HKAS 28/IAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of an associate's results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

The Group's ownership percentage decreased to 16.26% from 19.99% as a result of Bohai's initial public offering ("IPO") on the Hong Kong Stock Exchange, which was completed on 16 July 2020. The Group did not participate in the IPO. A HK\$335 million loss was recognised on the dilution of the Group's ownership percentage as the IPO price was lower than the Group's carrying value.

The Group has recognised 19.99% of Bohai's earnings through to the date of the IPO after which it has recognised 16.26% of Bohai's earnings. For the year ended 31 December 2020, the Group has recognised its share of profit or loss and other comprehensive income of Bohai three months in arrears given the timing of Bohai's publicly available financial information subsequent to its IPO. The Group in previous years recognised its share of Bohai's profit or loss and other comprehensive income one month in arrears.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***18 Interest in an associate (continued)*****Impairment testing***

At 31 December 2020, the market value of Bohai based on its listed share price was below the carrying amount of the investment. As a result, the Group has performed an impairment test on the carrying amount, which confirmed that there was no impairment at 31 December 2020 as the recoverable amount as determined by a value-in-use (“VIU”) calculation was higher than the carrying value.

	<i>At 31 December 2020</i>		
	<i>VIU</i>	<i>Carrying amount</i>	<i>Market value</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Bohai	22,821	15,705	14,643

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of Bohai, determined by a VIU calculation, with its carrying amount. The VIU calculation uses three primary inputs, being:

- discount short to medium term cash flow projections based on management’s best estimates of future earnings available to ordinary shareholders;
- a discount rate representing the risk-free rate and the company risk premiums, and;
- a long term sustainable growth rate which is used to extrapolate in perpetuity those expected short to medium term earnings to derive a terminal value.

The key assumptions used in the VIU calculation:

Discount rate:	10.00%
Long term growth rate:	5.00%
Minimum regulatory capital adequacy requirement:	7.50%

<i>Carrying Amount</i> <i>HK\$'M</i>	<i>Base case</i>				<i>Sensitivities 2020</i>					
	<i>VIU</i> <i>HK\$'M</i>	<i>Headroom</i> <i>HK\$'M</i>	<i>Discount Rate</i>	<i>Long term growth rate</i>	<i>Long term growth rate</i>		<i>Discount Rates</i>		<i>Cash flows</i>	
					<i>+1%</i> <i>Headroom</i> <i>HK\$'M</i>	<i>-1%</i> <i>Headroom</i> <i>HK\$'M</i>	<i>+1%</i> <i>Headroom</i> <i>HK\$'M</i>	<i>-1%</i> <i>Headroom</i> <i>HK\$'M</i>	<i>+10%</i> <i>Headroom</i> <i>HK\$'M</i>	<i>-10%</i> <i>Headroom</i> <i>HK\$'M</i>
15,705	22,821	7,116	10%	5.00%	11,317	4,315	3,724	12,195	10,488	3,744

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***18 Interest in an associate (continued)****Summary of financial information of the associate and reconciliation to the carrying amounts in the consolidated financial statements**

The following table sets out the summarised financial statements of Bohai prior to the Group's share of the associate being applied:

	<i>30 September 2020 HK\$'M</i>	<i>30 November 2019 HK\$'M</i>
Gross amounts of the associate		
Assets	1,569,861	1,218,301
Liabilities and other equity instrument not held by the Group	<u>(1,473,281)</u>	<u>(1,148,038)</u>
Net assets	<u>96,580</u>	<u>70,263</u>
Operating income	<u>26,943</u>	<u>31,915</u>
Profit after taxation	<u>7,364</u>	<u>9,675</u>
Other comprehensive income	<u>(996)</u>	<u>(495)</u>

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

19 Property, plant and equipment

	2020					
	<i>Buildings and leasehold land held for own use</i> HK\$'M	<i>Equipment, furniture & fixtures</i> HK\$'M	<i>Operating lease assets as lessor</i> HK\$'M	<i>Operating lease assets as lessee¹</i> HK\$'M	<i>Investment properties</i> HK\$'M	<i>Total</i> HK\$'M
Cost or valuation:						
At 1 January 2020	8,987	3,205	28,070	5,182	734	46,178
Additions	138	238	7,381	769	–	8,526
Disposals and write-offs	(269)	(236)	(674)	(364)	–	(1,543)
Reclassifications	(125)	125	–	–	–	–
Fair value adjustments (note 4(e))	–	–	–	–	(137)	(137)
Exchange adjustment	351	143	(126)	131	–	499
At 31 December 2020	9,082	3,475	34,651	5,718	597	53,523
Representing:						
Cost	9,082	3,475	34,651	5,718	–	52,926
Valuation	–	–	–	–	597	597
	9,082	3,475	34,651	5,718	597	53,523
Accumulated depreciation and impairment:						
At 1 January 2020	2,553	2,392	4,402	1,180	–	10,527
Charge for the period (note 4(f))	203	323	1,523	1,344	–	3,393
Impairments (note 5(b))	–	–	411	–	–	411
Attributable to assets sold or written off	(60)	(236)	(76)	(266)	–	(638)
Exchange adjustment	91	125	(20)	34	–	230
At 31 December 2020	2,787	2,604	6,240	2,292	–	13,923
Net book value:						
At 31 December 2020	6,295	871	28,411	3,426	597	39,600

¹ Operating lease assets as lessee mainly represent premises. The maturity profile of the associated lease liabilities is disclosed in note 34(f)(i).

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***19 Property, plant and equipment (continued)**

	2019					Total HK\$'M
	<i>Buildings and leasehold land held for own use HK\$'M</i>	<i>Equipment, furniture & fixtures HK\$'M</i>	<i>Operating lease assets as lessor HK\$'M</i>	<i>Operating lease assets as lessee¹ HK\$'M</i>	<i>Investment properties HK\$'M</i>	
Cost or valuation:						
At 1 January 2019	9,126	3,171	41,542	–	830	54,669
Adoption of HKFRS/IFRS 16	–	–	–	4,748	–	4,748
Additions	364	202	2,340	531	–	3,437
Transfers to assets held for sale	–	–	(11,454)	–	–	(11,454)
Disposals and write-offs	(248)	(181)	(4,221)	(80)	–	(4,730)
Reclassifications	(71)	71	–	–	–	–
Fair value adjustments (note 4(e))	–	–	–	–	(96)	(96)
Exchange adjustment	(184)	(58)	(137)	(17)	–	(396)
At 31 December 2019	8,987	3,205	28,070	5,182	734	46,178
Representing:						
Cost	8,987	3,205	28,070	5,182	–	45,444
Valuation	–	–	–	–	734	734
	8,987	3,205	28,070	5,182	734	46,178
Accumulated depreciation and impairment:						
At 1 January 2019	2,471	2,311	7,492	–	–	12,274
Charge for the period (note 4(f))	208	308	1,782	1,180	–	3,478
Impairments (note 5(b))	4	3	776	43	–	826
Attributable to transfers to assets held for sale	–	–	(4,903)	–	–	(4,903)
Attributable to assets sold or written off	(91)	(181)	(724)	(42)	–	(1,038)
Exchange adjustment	(39)	(49)	(21)	(1)	–	(110)
At 31 December 2019	2,553	2,392	4,402	1,180	–	10,527
Net book value:						
At 31 December 2019	6,434	813	23,668	4,002	734	35,651

¹ Operating lease assets as lessee mainly represent premises. The maturity profile of the associated lease liabilities is disclosed in note 34(f)(i).

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***19 Property, plant and equipment (continued)****(a) Operating lease assets as lessor**

The operating lease assets subsection of property, plant and equipment is the Group's aircraft leasing business, consisting of 102 commercial aircraft, of which 100 are narrow-body and 2 wide-body, leased to clients under operating leases. The leases are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to the ownership of the assets, and rental income from operating lease assets is disclosed in Note 4(e). At 31 December 2020, these assets had a net book value of HK\$28,411 million (31 December 2019: HK\$23,668 million).

Under these leases the lessee is responsible for the maintenance and servicing of the aircraft during the lease term while the Group receives rental income and assumes the risks of the residual value of the aircraft at the end of the lease. Initial lease terms range in length up to 12 years, while the average remaining lease term at 31 December 2020 is approximately 6 years. By varying the lease terms the effects of changes in cyclical market conditions at the time aircraft become eligible for re-lease are mitigated. The Group may consider entering into a lease extension with existing lessees well in advance of lease expiry in order to minimise the risk of aircraft downtime and aircraft transition costs. Aircraft may also be sold from time to time to manage the composition and average age of the fleet.

The total future minimum lease receivables under operating leases are as follows:

	2020 HK\$'M	2019 HK\$'M
Within 1 year	2,971	2,481
After 1 year but within 5 years	8,986	6,419
After 5 years	5,338	5,944
	<u>17,295</u>	<u>14,844</u>

(b) Investment properties

	2020 HK\$'M	2019 HK\$'M
Freehold outside Hong Kong, at fair value	<u>597</u>	<u>734</u>

The investment property outside Hong Kong was revalued as at 31 December 2020 on an open market value basis. The valuation was carried out by an independent firm, CBRE DIFC Limited, which has among its staff, members of the Royal Institute of Chartered Surveyors with recent experience in the location and category of the property being valued.

The fair value of the investment property is primarily determined using comparable recent market transactions on arm's length terms.

The fair value is categorised as a level 2 valuation using observable inputs.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

20 Goodwill and intangible assets

	2020		
	Capitalised software and other intangible assets HK\$'M	Goodwill HK\$'M	Total HK\$'M
Cost:			
At 1 January 2020	6,426	5,596	12,022
Additions	1,297	–	1,297
Disposals and write-offs	(200)	–	(200)
Exchange adjustment	285	387	672
At 31 December 2020	7,808	5,983	13,791
Accumulated amortisation:			
At 1 January 2020	4,117	–	4,117
Charge for the year (note 4(f))	777	–	777
Impairment (note 5(b))	15	–	15
Attributable to intangible assets sold or written off	(169)	–	(169)
Exchange adjustment	233	–	233
At 31 December 2020	4,973	–	4,973
Carrying amount:			
At 31 December 2020	2,835	5,983	8,818
	2019		
	Capitalised software and other intangible assets HK\$'M	Goodwill HK\$'M	Total HK\$'M
Cost:			
At 1 January 2019	5,165	5,582	10,747
Additions	1,632	–	1,632
Disposals and write-offs	(257)	–	(257)
Exchange adjustment	(114)	14	(100)
At 31 December 2019	6,426	5,596	12,022
Accumulated amortisation:			
At 1 January 2019	3,782	–	3,782
Charge for the year (note 4(f))	550	–	550
Impairment (note 5(b))	3	–	3
Attributable to intangible assets sold or written off	(145)	–	(145)
Exchange adjustment	(73)	–	(73)
At 31 December 2019	4,117	–	4,117
Carrying amount:			
At 31 December 2019	2,309	5,596	7,905

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***20 Goodwill and intangible assets (continued)*****Impairment tests for cash-generating units containing goodwill*****CGU structure**

When considering the generation of independent cash inflows and appropriate level of management, Corporate & Institutional Banking and Private Banking are managed on a global basis, while Retail Banking is managed on a country basis.

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>
Country CGUs - Retail Banking		
Hong Kong	611	611
Taiwan	4,122	3,818
Global CGUs		
Corporate and Institutional Banking	1,132	1,049
Private Banking	118	118
	<u>5,983</u>	<u>5,596</u>

Testing of goodwill for impairment

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purpose of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on Value-in-Use ("ViU"). The calculation of ViU for each CGU is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by management up to 2025. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates (5-year average). All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the CGU.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***20 Goodwill and intangible assets (continued)**

The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

	2020			2019		
	Goodwill HK\$'M	Pre-tax discount rate percent	Long-term forecast GDP growth rates percent	Goodwill HK\$'M	Pre-tax discount rate percent	Long-term forecast GDP growth rates percent
Cash generating unit						
Country CGUs - Retail Banking						
Hong Kong	611	9.71	2.65	611	9.19	2.44
Taiwan	4,122	8.58	2.13	3,818	10.57	2.05
Global CGUs						
Private Banking	118	10.00	3.63	118	9.06	5.25
Corporate and Institutional Banking	1,132	10.00	3.63	1,049	9.06	5.25
	<u>5,983</u>			<u>5,596</u>		

As the Taiwan Retail Banking CGU's recoverable amount of HK\$17,824 million is not significantly higher than its carrying amount of HK\$14,616 million, the Group has performed a sensitivity analysis on the key assumptions used in the VIU calculation. In order to eliminate the headroom of HK\$3,208 million, either the discount rate needs to increase by 1.5% or GDP growth rate needs to decrease by 2.0% or cashflow needs to decrease by 15.0% or the combination of the above.

21 Other assets

	2020 HK\$'M	2019 HK\$'M
Prepayments and accrued income	5,977	6,664
Sundry debtors	4,976	5,691
Acceptances and endorsements	13,811	11,538
Unsettled trades and others	45,739	54,613
Assets held for sale ¹	2,746	6,168
	<u>73,249</u>	<u>84,674</u>

¹ As at 31 December 2020, assets held for sale included vessels². As at 31 December 2019, assets held for sale included vessels and corporate loans.

² The Group has decided to exit the vessels leasing business and the leasing vessels were classified as assets held for sale accordingly. The transactions are expected to be completed within 2021.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***22 Deposits from customers**

	2020 HK\$'M	2019 HK\$'M
Current accounts	393,007	322,040
Savings accounts	934,123	726,470
Time and other deposits	409,599	481,602
	<u>1,736,729</u>	<u>1,530,112</u>

23 Debt securities in issue

	2020 HK\$'M	2019 HK\$'M
Certificates of deposit	12,869	10,330
Other debt securities in issue	29,546	21,278
	<u>42,415</u>	<u>31,608</u>

24 Financial liabilities at fair value through profit or loss

	2020 HK\$'M	2019 HK\$'M
Trading liabilities		
– Short position in securities	20,030	19,425
– Negative fair values of derivatives	83,932	30,013
	<u>103,962</u>	<u>49,438</u>
Financial liabilities designated at fair value through profit or loss:		
– Structured deposits from banks and customers	25,750	26,930
– Debt securities issued	8,408	16,571
– Liabilities under sale and repurchase agreement	10,106	3,610
	<u>44,264</u>	<u>47,111</u>
	<u>148,226</u>	<u>96,549</u>

The Group designates certain financial liabilities at fair value where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest related derivatives have been transacted with the intention of significantly reducing interest rate risk; or
- are exposed to equity price risk, foreign currency risk or credit risk and derivatives have been transacted with the intention of significantly reducing exposure to market changes.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***24 Financial liabilities at fair value through profit or loss (continued)*****Financial liabilities designed at fair value through profit or loss***

	2020 HK\$'M	2019 HK\$'M
Carrying balance aggregate fair value	44,264	47,111
Amount contractually obliged to repay at maturity	43,997	46,164
Difference between aggregate fair value and contractually obliged to repay at maturity	267	947
Cumulative change in fair value accredited to credit risk difference	(72)	(120)

The net fair value loss on financial liabilities designated at fair value through profit or loss was HK\$302 million for the year ended 31 December 2020 (2019: net loss of HK\$1,352 million).

25 Taxation in the consolidated statement of financial position***Deferred tax assets and liabilities:***

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

	<i>Depreciation allowances in excess of related depreciation</i> HK\$'M	<i>Impairment losses on financial assets</i> HK\$'M	<i>Financial assets at fair value through other comprehensive income</i> HK\$'M	<i>Own credit adjustment</i> HK\$'M	<i>Tax loss</i> HK\$'M	<i>Others</i> HK\$'M	<i>Total</i> HK\$'M
<i>Deferred tax arising from:</i>							
At 1 January 2019	(1,181)	1,021	(29)	(135)	1,088	703	1,467
Charge to consolidated income statement (note 6(a))	(164)	(124)	–	–	(63)	(30)	(381)
(Charge)/release to reserves	–	–	(100)	162	–	110	172
Others	–	(12)	1	(1)	8	(30)	(34)
At 31 December 2019	<u>(1,345)</u>	<u>885</u>	<u>(128)</u>	<u>26</u>	<u>1,033</u>	<u>753</u>	<u>1,224</u>
Charge to consolidated income statement (note 6(a))	(322)	24	(2)	–	(119)	409	(10)
(Charge)/release to reserves	–	–	(52)	(11)	–	(8)	(71)
Others	(25)	50	(6)	2	(27)	27	21
At 31 December 2020	<u>(1,692)</u>	<u>959</u>	<u>(188)</u>	<u>17</u>	<u>887</u>	<u>1,181</u>	<u>1,164</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***25 Taxation in the consolidated statement of financial position (continued)**

	2020 HK\$'M	2019 HK\$'M
Analysed by:		
Net deferred tax asset recognised on the consolidated statement of financial position	2,061	1,999
Net deferred tax liability recognised on the consolidated statement of financial position	(897)	(775)
	<u>1,164</u>	<u>1,224</u>

26 Other liabilities

	2020 HK\$'M	2019 HK\$'M
Accruals and deferred income	8,692	10,998
Provision for liabilities and charges ¹	417	436
Acceptances and endorsements	13,810	11,538
Expected credit loss provision on loan commitments and financial guarantees (note 15)	286	158
Lease liabilities	3,613	4,182
Unsettled trades and others	63,754	59,337
	<u>90,572</u>	<u>86,649</u>

¹ Provision for liabilities and charges consists mainly of provisions for regulatory settlements and legal claims. The Group receives legal claims against it in a number of jurisdictions and is subject to regulatory and enforcement investigations and proceedings from time to time. The Group currently considers none of these claims, investigations or proceedings to be material.

27 Employee retirement benefits

The Group operates five defined benefit plans.

SCB HK Scheme

Standard Chartered Bank Hong Kong Retirement Scheme ("HK Scheme") was established under a trust arrangement. It is registered under the Occupational Retirement Schemes Ordinance ("ORSO"). The Bank is the sole employer participating in the HK Scheme.

The Bank has an unconditional right to the HK Scheme's surplus and the HK Scheme has no minimum funding requirements.

The key responsibilities of the HK Scheme's trustees are to ensure that the HK Scheme is administered in accordance with the trust deed and to act on behalf of all members impartially, prudently and in good faith.

The HK Scheme exposes the Group to interest rate risk, investment risk and salary risk.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***27 Employee retirement benefits (continued)****SCB HK Scheme (continued)**

The Bank's contributions are determined with reference to the funding valuation carried out by the HK Scheme's actuary in accordance with the ORSO requirements. The last funding valuation of the HK Scheme was carried out as at 31 December 2020.

Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Korea and Taiwan.

(a) Amounts recognised in the consolidated statement of financial position

	2020				2019			
	Funded		Unfunded		Funded		Unfunded	
	HK	Overseas	Overseas	Total	HK	Overseas	Overseas	Total
	Scheme	Plans	Plans		Scheme	Plans	Plans	
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Fair value of plan assets	1,956	2,355	–	4,311	1,858	1,936	–	3,794
Present value of obligations	(1,948)	(2,479)	(60)	(4,487)	(1,916)	(2,140)	(56)	(4,112)
Net asset/(liability) recognised in the consolidated statement of financial position (included in "Other liabilities")	8	(124)	(60)	(176)	(58)	(204)	(56)	(318)

(b) Movements in the present value of the defined benefit obligations:

	2020				2019			
	Funded		Unfunded		Funded		Unfunded	
	HK	Overseas	Overseas	Total	HK	Overseas	Overseas	Total
	Scheme	Plans	Plans		Scheme	Plans	Plans	
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
At 1 January	(1,916)	(2,140)	(56)	(4,112)	(1,893)	(2,007)	(57)	(3,957)
Benefits paid	202	71	–	273	165	99	–	264
Current service cost	(74)	(199)	(3)	(276)	(73)	(196)	(4)	(273)
Net interest cost	(33)	(41)	(1)	(75)	(35)	(41)	(1)	(77)
Settlement costs and transfers impact	–	11	–	11	–	53	2	55
Actuarial gain/(loss) – from experience	25	(46)	3	(18)	(12)	(28)	5	(35)
Actuarial gain/(loss) – from assumptions	(152)	13	1	(138)	(68)	(62)	(3)	(133)
Exchange rate adjustment	–	(148)	(4)	(152)	–	42	2	44
At 31 December	(1,948)	(2,479)	(60)	(4,487)	(1,916)	(2,140)	(56)	(4,112)

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***27 Employee retirement benefits (continued)****(c) Movements in the fair value of plan assets:**

	2020				2019			
	Funded		Unfunded		Funded		Unfunded	
	HK	Overseas	Overseas	Total	HK	Overseas	Overseas	Total
	Scheme	Plans	Plans		Scheme	Plans	Plans	
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
At 1 January	1,858	1,936	-	3,794	1,716	1,812	-	3,528
Contributions	22	262	-	284	23	262	-	285
Benefits paid	(202)	(71)	-	(273)	(165)	(99)	-	(264)
Net interest income	32	42	-	74	32	42	-	74
Settlement costs and transfers impact	-	(11)	-	(11)	-	(51)	-	(51)
Administrative expenses	-	-	-	-	-	-	-	-
Return on plan assets, excluding amounts included in interest income	246	56	-	302	252	23	-	275
Exchange rate adjustment	-	141	-	141	-	(53)	-	(53)
At 31 December	1,956	2,355	-	4,311	1,858	1,936	-	3,794

(d) Movements in the net (liabilities)/assets recognised in the consolidated balance sheet are as follows:

	2020				2019			
	Funded		Unfunded		Funded		Unfunded	
	HK	Overseas	Overseas	Total	HK	Overseas	Overseas	Total
	Scheme	Plans	Plans		Scheme	Plans	Plans	
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
At 1 January	(58)	(204)	(56)	(318)	(177)	(195)	(57)	(429)
Contributions	22	262	-	284	23	262	-	285
Current service cost	(74)	(199)	(3)	(276)	(73)	(196)	(4)	(273)
Net interest income/(cost)	(1)	1	(1)	(1)	(3)	1	(1)	(3)
Settlement costs and transfers impact	-	-	-	-	-	2	2	4
Administrative expenses	-	-	-	-	-	-	-	-
Return on plan assets, excluding amounts included in interest income	246	56	-	302	252	23	-	275
Actuarial gain/(loss) – from experience	25	(46)	3	(18)	(12)	(28)	5	(35)
Actuarial gain/(loss) – from assumptions	(152)	13	1	(138)	(68)	(62)	(3)	(133)
Exchange rate adjustment	-	(7)	(4)	(11)	-	(11)	2	(9)
At 31 December ¹	8	(124)	(60)	(176)	(58)	(204)	(56)	(318)

¹ The deficit total of HK\$176 million (2019: HK\$318 million) is made up of plans in deficit of HK\$396 million (2019: HK\$435 million) net of plans in surplus with assets totalling HK\$220 million (2019: HK\$117 million).

The weighted average duration of the defined benefit obligation as at 31 December 2020 for HK Scheme is 6 years (2019: 6 years) and overseas plan is 8 years (2019: 8 years).

The Group's expected contribution to its defined benefit pension in 2021 is HK\$268 million.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***27 Employee retirement benefits (continued)****(e) Amounts recognised in the consolidated income statement for the year**

	2020				2019			
	Funded		Unfunded		Funded		Unfunded	
	HK	Overseas	Overseas	Total	HK	Overseas	Overseas	Total
	Scheme	Plans	Plans		Scheme	Plans	Plans	
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Total service cost	74	199	3	276	73	194	2	269
Net interest cost/(income)	1	(1)	1	1	3	(1)	1	3
	75	198	4	277	76	193	3	272

(f) Principal actuarial assumptions used in the valuation and sensitivity analysis

	HK Scheme		Overseas Plans	
	2020	2019	2020	2019
Discount rate	0.4%	1.8%	0.3% – 2.7%	0.7% – 2.5%
Future salary growth rate	4.0%	4.0%	3.0% – 3.5%	3.0% – 3.5%

These assumptions are likely to change in the future and thus will affect the value placed on the defined benefit obligations. Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate increased by 25 basis points, the obligation would reduce by approximately HK\$29 million for the HK Scheme (2019: HK\$29 million) and HK\$60 million for overseas plans (2019: HK\$54 million)
- If the rate of growth of salaries was higher by 25 basis points the obligation would increase by approximately HK\$27 million for the HK Scheme (2019: HK\$27 million) and HK\$67 million for overseas plans (2019: HK\$58 million)

(g) Major categories of assets

	HK Scheme		Overseas Plans	
	2020	2019	2020	2019
Equities	53%	61%	9%	9%
Bonds	40%	36%	4%	22%
Investment funds	–	–	18%	14%
Real estate/property	–	–	–	11%
Insurance contracts	–	–	66%	39%
Cash and others	7%	3%	3%	5%
	100%	100%	100%	100%

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***28 Subordinated liabilities**

	2020 HK\$'M	2019 HK\$'M
Issued by the Bank:		
US\$750 million 5.875% Tier 2 fixed rate notes 2020	—	5,876

29 Share capital and other equity instruments

	2020		2019	
	No. of shares	HK\$'M	No. of shares	HK\$'M
Issued and fully paid				
<i>Ordinary share capital:</i>				
Class A ordinary shares	706 million	12,500	706 million	12,500
Class B ordinary shares	1,231 million	78	1,231 million	78
Class C ordinary shares	342 million	21,165	342 million	21,165
Class D ordinary shares	3,010 million	23,604	3,010 million	23,604
<i>Additional Tier 1 capital:</i>				
US\$500 million 6.25% perpetual non-cumulative convertible preference shares	—	—	10	3,878
Redemption/Bought back of preference shares				
HK\$3,800 million 8.25% non-cumulative preference shares	—	3,800	—	3,800
US\$500 million 6.25% perpetual non-cumulative convertible preference shares	—	3,878	—	—
		<u>65,025</u>		<u>65,025</u>
		2020 HK\$'M		2019 HK\$'M
Other equity instrument				
<i>Additional Tier 1 capital:</i>				
US\$250 million 5% perpetual non-cumulative capital securities		1,952		1,952
US\$900 million floating rate undated Additional Tier 1 capital securities		7,031		7,031
US\$1,000 million fixed rate undated Additional Tier 1 capital securities		7,750		—
		<u>16,733</u>		<u>8,983</u>

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

29 Share capital and other equity instruments (continued)

The Hong Kong Companies Ordinance was revised with effect from 3 March 2014. Under the new Companies Ordinance (Cap. 622), amounts which were previously credited to the share premium account and capital redemption reserve have been aggregated together as part of the Bank's share capital. Since the share premium amounting to HK\$12,477 million was originated from Class A and Class B ordinary shares, and the capital redemption reserve amounting to HK\$3,804 million was originated from partial redemption of Class A ordinary shares and full redemption of preference shares in prior years, they were allocated back to the ordinary shares and preference share capital accordingly.

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

On 30 December 2014, 10 perpetual non-cumulative convertible preference shares were issued to Standard Chartered Bank at an aggregate issue price of US\$500 million with a liquidation preference of US\$500 million. The preference shares qualified as Additional Tier 1 capital under the Banking (Capital) Rules. The preference shares have been fully redeemed or bought back in December 2020 via payment out of distributable profits and for which the amount was transferred from retained earnings to share capital in accordance with the requirements of the Hong Kong Companies Ordinance.

On 13 December 2017, the Bank issued perpetual non-cumulative subordinated capital securities with a face value of US\$250 million. The capital securities are undated and bear a 5 percent coupon until the first call date on 13 December 2024. The coupon will be reset thereafter if the capital securities are not redeemed, to a fixed rate equivalent to the prevailing US Treasury rate plus 2.702% per annum. The securities qualify as Additional Tier 1 capital under the Banking (Capital) Rules.

On 1 June 2019, the Bank acquired 100 percent of the share capital of SCB China from a fellow subsidiary by issuance of Class C ordinary share capital amounting to HK\$21,165 million.

On 24 June 2019, the Bank issued floating rate undated Additional Tier 1 capital securities with a face value of US\$900 million. The capital securities are undated with an optional call date on 12 April 2026 and bear a coupon rate equivalent to 3-month USD LIBOR plus 4.48 percent per annum. The securities qualify as Additional Tier 1 capital under the Banking (Capital) Rules and LAC debt instruments under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules ("LAC Rules").

On 1 October 2019, the Bank acquired 100 percent of the share capital of SC NEA Group from a fellow subsidiary by issuance of Class D ordinary share capital amounting to HK\$23,604 million.

On 30 June 2020, the Bank issued fixed rate undated Additional Tier 1 capital securities with a face value of US\$1,000 million. The capital securities are undated with an optional call on 26 July 2025 and bear a coupon rate of 6 percent per annum until first reset date on 26 January 2026. The coupon will be reset every 5 years thereafter if the capital securities are not redeemed, to a fixed rate equivalent to the prevailing U.S. Treasury rate plus 5.661 percent. The securities qualify as Additional Tier 1 capital under the Banking (Capital) Rules and LAC debt instruments under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules ("LAC Rules")."

The Ordinary Shares shall rank *pari passu* with each other with respect to the payment of dividends by the Bank. The Class B ordinary shares, the Class C ordinary shares and the Class D ordinary shares shall rank *pari passu* with each other, but in priority to the Class A ordinary shares, with respect to any return of capital by the Bank.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

30 Reserves***Nature and purpose of reserves*****(i) Own credit adjustment (“OCA”) reserve**

The own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to the Group’s own credit risk. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit risk in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings.

(ii) Cash flow hedge reserve

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

(iii) Investment in debt securities at fair value through other comprehensive income reserve (“FVOCI reserve – Debt”) and Investment in equity securities at fair value through other comprehensive income reserve (“FVOCI reserve – Equity”)

The FVOCI reserve – Debt and FVOCI reserve – Equity comprise respectively the cumulative net change in the fair value of the investment in debt securities and equity securities measured at fair value through other comprehensive income, less the ECL allowance recognised in profit or loss. The reserve is dealt with in accordance with the accounting policy in note 2(i).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

(v) Statutory reserves

The statutory reserves are held by certain overseas subsidiaries to comply with local regulations.

(vi) Other reserves

Other reserves comprise:

- Merger reserve which arises on the acquisition of common control entities in accordance with the principles of merger accounting under the Accounting Guideline No.5 Merger Accounting for Common Control Combinations issued by the HKICPA.
- Capital contribution reserve which represents the excess of consideration received over the book value of a subsidiary transferred to a commonly controlled entity.

The Hong Kong Monetary Authority (“HKMA”) requires the Group to maintain a minimum level of impairment allowances which is in excess of the impairment allowances required under HKFRSs. Of the retained profits as at 31 December 2020, an amount of HK\$2,680 million (2019: HK\$5,379 million) has been reserved for this purpose.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***31 Cash and cash equivalents****(a) Components of cash and cash equivalents in the consolidated cash flow statement**

	2020 HK\$'M	2019 HK\$'M
Cash and balances at central banks	66,640	68,549
Advances to banks and other financial institutions with original maturity within three months	69,114	60,856
Investment securities with original maturity within three months	70,634	57,912
Amounts due from fellow subsidiaries with original maturity within three months	4,053	4,688
Less: Overdrafts included in "deposits and balances of banks and other financial institutions"	–	(8)
Less: Overdrafts included in "amounts due to fellow subsidiaries"	(6,279)	(11,459)
	<u>204,162</u>	<u>180,538</u>

(b) Reconciliation with the consolidated statement of financial position

	2020 HK\$'M	2019 HK\$'M
Cash and balances at central banks	66,640	68,549
Financial assets at fair value through profit or loss	245,239	127,347
Advances to banks and other financial institutions	129,316	129,258
Investment securities	521,269	424,178
Amounts due from fellow subsidiaries	206,675	164,132
Overdrafts included in "deposits and balances of banks and other financial institutions"	–	(8)
Overdrafts included in "amounts due to fellow subsidiaries"	(6,279)	(11,459)
	<u>1,162,860</u>	<u>901,997</u>
Less: amounts with an original maturity of beyond three months	(958,698)	(721,459)
	<u>204,162</u>	<u>180,538</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***31 Cash and cash equivalents (continued)****(c) Reconciliation of liabilities arising from financing activities**

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

	2020			
	<i>Subordinated liabilities to fellow subsidiaries and immediate holding company HK\$'M</i>	<i>Subordinated liabilities to third parties HK\$'M</i>	<i>Lease liabilities HK\$'M</i>	<i>Total HK\$'M</i>
At 1 January 2020	36,109	5,876	4,182	46,167
Changes from financing cash flows:				
Issuance of subordinated liabilities	10,228	–	–	10,228
Redemption of subordinated liabilities	–	(5,876)	–	(5,876)
Interest paid on subordinated liabilities	(980)	(360)	–	(1,340)
Payment of lease liabilities	–	–	(1,402)	(1,402)
	<hr/>	<hr/>	<hr/>	<hr/>
Total changes from financing cash flows	9,248	(6,236)	(1,402)	1,610
	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>
Exchange adjustments	390	–	7	397
Hedge accounting adjustment	41	–	–	41
Other changes:				
Net increase in lease liabilities from entering into new leases, net of disposals	–	–	671	671
Interest expense on subordinated liabilities and other borrowings	978	360	–	1,338
Interest expense on lease liabilities	–	–	155	155
	<hr/>	<hr/>	<hr/>	<hr/>
Total other changes	978	360	826	2,164
	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>	<hr style="border-top: 1px dashed;"/>
At 31 December 2020	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	46,766	–	3,613	50,379

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***31 Cash and cash equivalents (continued)****(c) Reconciliation of liabilities arising from financing activities (continued)**

	2019			Total HK\$'M
	Subordinated liabilities to fellow subsidiaries and immediate holding company HK\$'M	Subordinated liabilities to third parties HK\$'M	Lease liabilities HK\$'M	
At 1 January 2019	7,828	5,907	–	13,735
Effect of adoption of HKFRS/IFRS 16	–	–	4,748	4,748
Changes from financing cash flows:				
Issuance of subordinated liabilities	28,165	–	–	28,165
Interest paid on subordinated liabilities	(782)	(360)	–	(1,142)
Payment of lease liabilities	–	–	(1,234)	(1,234)
Total changes from financing cash flows	27,383	(360)	(1,234)	25,789
Exchange adjustments	(33)	(32)	–	(65)
Hedge accounting adjustment	149	(5)	–	144
Other changes:				
Net increase in lease liabilities from entering into new leases	–	–	493	493
Interest expense on subordinated liabilities and other borrowings	782	366	–	1,148
Interest expense on lease liabilities	–	–	175	175
Total other changes	782	366	668	1,816
At 31 December 2019	36,109	5,876	4,182	46,167

32 Derivative financial instruments

The use of derivatives for trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are foreign exchange related and interest rate related contracts, which are primarily over-the-counter derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. The notional principal amount is the amount of principal underlying the contract at the reporting date.

	2020			2019		
	<i>Notional principal amounts</i> HK\$'M	<i>Fair value assets</i> HK\$'M	<i>Fair value liabilities</i> HK\$'M	<i>Notional principal amounts</i> HK\$'M	<i>Fair value assets</i> HK\$'M	<i>Fair value liabilities</i> HK\$'M
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	3,588,561	62,588	(71,234)	2,721,430	24,145	(22,801)
Currency swaps and options	2,889,189	40,845	(40,719)	3,215,124	16,570	(17,513)
	6,477,750	103,433	(111,953)	5,936,554	40,715	(40,314)
Interest rate derivative contracts:						
Swaps	5,051,593	20,148	(25,235)	4,352,698	15,937	(17,194)
Forward rate agreement and options	45,925	195	(709)	66,288	345	(2,929)
	5,097,518	20,343	(25,944)	4,418,986	16,282	(20,123)
Other derivative contracts	98,709	2,882	(10,958)	55,913	751	(2,645)
Total derivatives	11,673,977	126,658	(148,855)	10,411,453	57,748	(63,082)

Derivative held for hedging

The notional principal amounts and the positive and negative fair values of derivative financial instruments held for hedging purposes at the reporting date is as follows:

	2020			2019		
	<i>Notional principal amounts</i> HK\$'M	<i>Fair value assets</i> HK\$'M	<i>Fair value liabilities</i> HK\$'M	<i>Notional principal amounts</i> HK\$'M	<i>Fair value assets</i> HK\$'M	<i>Fair value liabilities</i> HK\$'M
Derivatives designated as fair value hedges:						
Interest rate swaps	96,380	43	(2,178)	86,336	145	(1,054)
Cross currency swaps	3,895	–	(176)	21,512	103	(181)
	100,275	43	(2,354)	107,848	248	(1,235)
Derivatives designated as cash flow hedges:						
Interest rate swaps	61,296	548	(839)	62,275	403	(450)
Cross currency swaps	50,591	88	(898)	34,067	219	(384)
	111,887	636	(1,737)	96,342	622	(834)
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	28,962	–	(2,269)	28,883	–	(515)
Total derivatives held for hedging	241,124	679	(6,360)	233,073	870	(2,584)

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Fair value hedges

The fair value hedges principally consist of interest rate swaps and cross currency swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets and liabilities due to movements in market interest rates. The cross currency swaps are used to manage foreign exchange exposures and interest rate risk.

Maturity of hedging instruments

The Group held the following derivatives as hedging instruments in fair value hedges.

Risk category	2020				2019			
	<i>Less than one month</i>	<i>More than one month and less than one year</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Less than one month</i>	<i>More than one month and less than one year</i>	<i>One to five years</i>	<i>More than five years</i>
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Interest rate risk								
Notional Amount								
Hedge of debt securities	571	17,479	35,315	4,039	135	6,491	30,985	3,810
Hedge of treasury bills	–	947	23,046	2,016	3,015	11,459	17,076	–
Hedge of advances to customers	828	4,439	7,700	–	–	1,561	5,531	434
Hedge of subordinated liabilities	–	–	–	–	–	5,839	–	–
	<u>1,399</u>	<u>22,865</u>	<u>66,061</u>	<u>6,055</u>	<u>3,150</u>	<u>25,350</u>	<u>53,592</u>	<u>4,244</u>
Foreign exchange risk and interest rate risk								
Notional Amount								
Hedge of debt securities	142	–	–	–	–	594	333	–
Hedge of treasury bills	1,501	–	2,252	–	715	18,730	1,140	–
	<u>1,643</u>	<u>–</u>	<u>2,252</u>	<u>–</u>	<u>715</u>	<u>19,324</u>	<u>1,473</u>	<u>–</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Hedging Instruments and ineffectiveness

	2020				
	Notional HK\$'M	Carrying Amount*		Change in fair value used to calculate hedge ineffectiveness HK\$'M	Ineffectiveness recognised in net trading income HK\$'M
		Asset HK\$'M	Liability HK\$'M		
Interest rate risk					
Interest rate swaps – Hedge of debt securities	57,404	8	(1,248)	(741)	(1)
Interest rate swaps – Hedge of treasury bills	26,009	18	(880)	(680)	–
Interest rate swaps – Hedge of advances to customers	12,967	17	(50)	(7)	(1)
	<u>96,380</u>	<u>43</u>	<u>(2,178)</u>	<u>(1,428)</u>	<u>(2)</u>
Foreign exchange risk and Interest rate risk					
Cross currency swaps – Hedge of debt securities	142	–	–	(12)	–
Cross currency swaps – Hedge of treasury bills	3,753	–	(176)	(182)	3
	<u>3,895</u>	<u>–</u>	<u>(176)</u>	<u>(194)</u>	<u>3</u>
	2019				
	Notional HK\$'M	Carrying Amount*		Change in fair value used to calculate hedge ineffectiveness HK\$'M	Ineffectiveness recognised in net trading income HK\$'M
		Asset HK\$'M	Liability HK\$'M		
Interest rate risk					
Interest rate swaps – Hedge of debt securities	41,421	81	(576)	(355)	2
Interest rate swaps – Hedge of treasury bills	31,550	19	(369)	(178)	1
Interest rate swaps – Hedge of advances to customers	7,526	5	(109)	(117)	(2)
Interest rate swaps – Hedge of subordinated liabilities	5,839	40	–	(5)	–
	<u>86,336</u>	<u>145</u>	<u>(1,054)</u>	<u>(655)</u>	<u>1</u>
Foreign exchange risk and Interest rate risk					
Cross currency swaps – Hedge of debt securities	927	20	(3)	4	2
Cross currency swaps – Hedge of treasury bills	20,585	83	(178)	(151)	13
	<u>21,512</u>	<u>103</u>	<u>(181)</u>	<u>(147)</u>	<u>15</u>

* The carrying amount represents the fair value of the hedging instruments including its respective accrued interest

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Hedged items

	2020					
	Carrying Amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in the value used for calculating hedge ineffectiveness	Accumulated amortising amount of fair value hedge adjustments no longer designated as hedges
	Asset	Liability	Asset	Liability		
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Debt securities	59,115	–	1,102	–	752	(104)
Treasury bills	30,822	–	979	–	865	(27)
Advances to customers	12,968	–	23	–	6	3
	<u>102,905</u>	<u>–</u>	<u>2,104</u>	<u>–</u>	<u>1,623</u>	<u>(128)</u>
	2019					
	Carrying Amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in the value used for calculating hedge ineffectiveness	Accumulated amortising amount of fair value hedge adjustments no longer designated as hedges
	Asset	Liability	Asset	Liability		
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Debt securities	43,015	–	408	–	355	(163)
Treasury bills	52,408	–	409	–	343	(14)
Advances to customers	7,621	–	100	–	115	4
Subordinated liabilities	–	(5,876)	–	(39)	5	–
	<u>103,044</u>	<u>(5,876)</u>	<u>917</u>	<u>(39)</u>	<u>818</u>	<u>(173)</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Cash flow hedges

The cash flow hedges principally consist of interest rate swaps and cross currency swaps that are used to hedge against the variability in cash flows of certain floating rate assets and liabilities.

Maturity of hedging instruments

The Group held the following derivatives as hedging instruments in cash flow hedges.

Risk category	2020				2019			
	<i>More than one month</i>		<i>One to five years</i>	<i>More than five years</i>	<i>More than one month</i>		<i>One to five years</i>	<i>More than five years</i>
	<i>Less than one month</i>	<i>and less than one year</i>			<i>Less than one month</i>	<i>and less than one year</i>		
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	
Interest rate risk								
Notional Amount								
Hedge of debt securities	-	2,855	-	-	-	-	-	-
Hedge of advances to customers	-	19,459	22,978	-	1,500	29,635	11,956	-
Hedge of deposits from customers	-	-	6,445	9,559	-	4,713	8,609	5,862
	-	22,314	29,423	9,559	1,500	34,348	20,565	5,862
Foreign exchange risk and interest rate risk								
Notional Amount								
Hedge of treasury bills	-	12,646	12,659	-	-	322	4,122	-
Hedge of intragroup lending and borrowing	-	23,557	-	-	-	20,540	-	-
Hedge of deposits from customers	-	1,729	-	-	3,137	5,155	791	-
	-	37,932	12,659	-	3,137	26,017	4,913	-

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Hedging instruments and ineffectiveness

	2020						
	Carrying Amount*		Change in fair value used to calculate hedge ineffectiveness	Changes in the value of the hedging instrument recognised in OCI	Ineffectiveness recognised in net trading income	Amount reclassified from reserves to net interest income	
	Notional HK\$'M	Asset HK\$'M					Liability HK\$'M
Interest rate risk							
Interest rate swaps – Hedge of debt securities	2,855	–	(1)	(1)	(1)	–	–
Interest rate swaps – Hedge of advances to customers	42,437	467	(1)	189	188	1	(21)
Interest rate swaps – Hedge of deposits from customers	16,004	81	(837)	(405)	(404)	(1)	(18)
	<u>61,296</u>	<u>548</u>	<u>(839)</u>	<u>(217)</u>	<u>(217)</u>	<u>–</u>	<u>(39)</u>
Foreign exchange risk and							
Interest rate risk							
Cross currency swaps – Hedge of treasury bills	25,305	51	(578)	(717)	(719)	2	–
Cross currency swaps – Hedge of intragroup lending and borrowing	23,557	37	(227)	(220)	(220)	–	–
Cross currency swaps – Hedge of deposits from customers	1,729	–	(93)	(79)	(79)	–	–
	<u>50,591</u>	<u>88</u>	<u>(898)</u>	<u>(1,016)</u>	<u>(1,018)</u>	<u>2</u>	<u>–</u>

* The carrying amount represents the fair value of the hedging instruments including its respective accrued interest

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Hedging instruments and ineffectiveness (continued)

	2019						
	Carrying Amount*			Change in fair value used to calculate hedge ineffectiveness	Changes in the value of the hedging instrument recognised in OCI	Ineffectiveness recognised in net trading income	Amount reclassified from reserves to net interest income
	Notional	Asset	Liability				
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Interest rate risk							
Interest rate swaps – Hedge of debt securities	-	-	-	-	-	-	(7)
Interest rate swaps – Hedge of advances to customers	43,091	388	-	(10)	(9)	(1)	(74)
Interest rate swaps – Hedge of deposits from customers	19,184	15	(450)	(551)	(549)	(2)	63
	<u>62,275</u>	<u>403</u>	<u>(450)</u>	<u>(561)</u>	<u>(558)</u>	<u>(3)</u>	<u>(18)</u>
Foreign exchange risk and							
Interest rate risk							
Cross currency swaps –							
Hedge of debt securities	4,444	89	-	44	43	1	-
Cross currency swaps –							
Hedge of intragroup lending	20,540	56	(329)	(313)	(313)	-	-
Cross currency swaps –							
Hedge of deposits from customers	9,083	74	(55)	(23)	(23)	-	-
	<u>34,067</u>	<u>219</u>	<u>(384)</u>	<u>(292)</u>	<u>(293)</u>	<u>1</u>	<u>-</u>
Hedged items							

	2020		
	Change in the value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
	HK\$'M	HK\$'M	HK\$'M
Debt securities	1	(1)	-
Treasury bills	719	110	-
Loans and advances to customers	(188)	188	(6)
Intragroup lending and borrowing	220	32	-
Deposits from customers	483	(708)	(64)
	<u>1,235</u>	<u>(379)</u>	<u>(70)</u>

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

32 Derivative financial instruments (continued)

Hedged items (continued)

	2019		
	Change in the value used for calculating hedge ineffectiveness HK\$'M	Cash flow hedge reserve HK\$'M	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied HK\$'M
Debt securities	(43)	13	–
Advances to customers	9	(2)	(23)
Deposits from customers	572	(406)	(31)
Intragroup lending	313	–	–
	<u>851</u>	<u>(395)</u>	<u>(54)</u>

Net investment hedges

A foreign currency exposure arises from a net investment in subsidiaries that have a different functional currency from that of the Group. This risk arises from the fluctuation in spot exchange rates between the functional currencies of the subsidiaries and the functional currency of the Group, which causes the value of the investments to vary.

As at 31 December 2020, the derivatives that the Group held as hedging instruments are maturing less than one month.

Hedging instruments and ineffectiveness

	2020						
	Notional HK\$'M	Carrying Amount		Change in fair value used to calculate hedge ineffectiveness HK\$'M	Changes in the value of the hedging instrument recognised in OCI HK\$'M	Ineffectiveness recognised in net trading income HK\$'M	Amount reclassified from reserves to net trading income HK\$'M
		Asset HK\$'M	Liability HK\$'M				
Foreign exchange risk							
Foreign exchange forwards							
– Hedge of net investments in subsidiaries	28,962	–	(2,269)	(2,269)	2,269	–	–
	<u>28,962</u>	<u>–</u>	<u>(2,269)</u>	<u>(2,269)</u>	<u>2,269</u>	<u>–</u>	<u>–</u>
	2019						
	Notional HK\$'M	Carrying Amount		Change in fair value used to calculate hedge ineffectiveness HK\$'M	Changes in the value of the hedging instrument recognised in OCI HK\$'M	Ineffectiveness recognised in net trading income HK\$'M	Amount reclassified from reserves to net trading income HK\$'M
		Asset HK\$'M	Liability HK\$'M				
Foreign exchange risk							
Foreign exchange forwards							
– Hedge of net investments in subsidiaries	28,883	–	(515)	(515)	515	–	–
	<u>28,883</u>	<u>–</u>	<u>(515)</u>	<u>(515)</u>	<u>515</u>	<u>–</u>	<u>–</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Hedged items

	2020		
	<i>Change in the value used for calculating hedge ineffectiveness</i> HK\$'M	<i>Exchange reserve</i> HK\$'M	<i>Balances remaining in the exchange reserve from hedging relationships for which hedge accounting is no longer applied</i> HK\$'M
Net investments in subsidiaries	2,269	(2,269)	–
	2019		
	<i>Change in the value used for calculating hedge ineffectiveness</i> HK\$'M	<i>Exchange reserve</i> HK\$'M	<i>Balances remaining in the exchange reserve from hedging relationships for which hedge accounting is no longer applied</i> HK\$'M
Net investments in subsidiaries	515	(515)	–

Interest rate benchmark reform

The Group applies the Phase 1 'Interest Rate Benchmark Reform Amendments to HKFRS 9/IFRS 9, HKAS 39/IAS 39 and HKFRS 7/IFRS 7' which allow the Group to assume that the interest rate benchmark on which cash flows for the hedged item and/or hedging instrument are based is altered as a result of IBOR reform for the following activities:

- Prospective hedge assessment
- Determining whether a cash flow or forecast transaction for a cash flow hedge is highly probable. However, the Group otherwise assesses whether the cash flows are considered highly probable
- Determining when cumulative balances in the cash flow hedge reserve from de-designated hedges should be recycled to the income statement

The Group will not de-designate a hedge relationship of a benchmark in scope of IBOR reform if the retrospective hedge result is outside the required 80-125% range but the hedge passes the prospective assessment. Any hedge ineffectiveness continues to be recorded in net trading income.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***32 Derivative financial instruments (continued)**

Interest rate benchmark reform (continued)

As at 31 December 2020, the following populations of derivative instruments designated in fair value or cash flow hedge accounting relationships were linked to IBOR reference rates:

	2020				Total HK\$'M
	Fair value hedges		Cash flow hedges		
	Notional designated up to 31 December 2021 HK\$'M	Notional designated beyond 31 December 2021 HK\$'M	Notional designated up to 31 December 2021 HK\$'M	Notional designated beyond 31 December 2021 HK\$'M	
Total notional of hedging instruments in scope of IFRS/ HKFRS amendments	44,922	51,970	–	14,598	111,490
	2019				
	Fair value hedges		Cash flow hedges		Total HK\$'M
	Notional designated up to 31 December 2021 HK\$'M	Notional designated beyond 31 December 2021 HK\$'M	Notional designated up to 31 December 2021 HK\$'M	Notional designated beyond 31 December 2021 HK\$'M	
Total notional of hedging instruments in scope of IFRS/ HKFRS amendments	48,105	29,735	5,060	12,524	95,424

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***33 Contingent liabilities and commitments****(a) The following is a summary of the contractual amounts of each significant contingent liability and commitment:**

	2020 HK\$'M	2019 HK\$'M
Direct credit substitutes	15,401	11,056
Transaction-related contingencies	36,401	32,787
Trade-related contingencies	15,405	13,117
Forward asset purchases	196	197
Forward forward deposits placed	343	390
Other commitments: which are not unconditionally cancellable:		
with original maturity of not more than one year	20,162	16,247
with original maturity of more than one year	146,621	124,202
which are unconditionally cancellable	671,324	632,226
	<u>905,853</u>	<u>830,222</u>

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contracted amounts do not represent expected future cash flows.

(b) Capital commitments

Capital commitments outstanding at 31 December in respect of property, plant and equipment purchases not provided for in the consolidated financial statements were HK\$149 million (2019: HK\$3,239 million).

(c) Contingencies

The Group receives legal claims against it arising in the normal course of business. The Group considers none of these matters as material. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management

The coverage of risk management activities of the Group has expanded in alignment to the change in legal entity structure through the creation of a Greater China & North Asia (“GCNA”) hub, which included Standard Chartered Bank (Hong Kong) Limited and its subsidiaries in China, Korea, and Taiwan. The regional senior management of the Group, with the support of the senior management at individual subsidiary level, are responsible in the management of risk for the GCNA hub.

Risk management approach

Enterprise Risk Management Framework (“ERMF”)

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which it operates, generating returns for shareholders by taking and managing risk.

The Group introduced the Enterprise Risk Management Framework (“ERMF”) back in 2018 which enabled the Group to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite. Over the years, awareness of the ERMF has increased significantly and we have made good progress in delivering the key initiatives to embed the framework across the organisation.

Throughout the year, awareness of the ERMF has increased leading to a stronger risk culture across the three lines of defence. We have achieved the following:

- Model Risk was elevated to a Principal Risk Type (effective in 2020) with enhancements to the Group’s approach to Model Risk management;
- Climate Risk was introduced as a material cross-cutting risk, while not a Principal Risk Type in itself, manifests through other relevant Principal Risk Types;
- Our existing Principal Risk Types were updated as follows:
 - Country Risk coverage was expanded from Country Cross-Border Risk to Gross Country Risk;
 - Principles related to environment and social risks, defence and dual use goods were incorporated under Reputational Risk;

Fraud Risk was reclassified as a risk sub-type from Operational Risk to Financial Crime.

The Group will carry this momentum into 2021 as we continue to roll out the ERMF and Risk Type Frameworks across the Group, as well as launching training programmes to ensure awareness and stakeholder engagement.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**Risk management approach (continued)*****Risk culture***

The Group's risk culture provides the guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes:

- An enterprise level ability to identify and assess current and future risks, openly discuss and take prompt actions;
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks;
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner;
- Everyone to be accountable for his/her decisions and feel safe using their judgment to make these considered decisions.

The Group acknowledges that banking inherently involves risk taking and undesired outcomes will occur from time to time; however, the Group shall take the opportunity to learn from its experience and formalise what the Group can do to improve. The Group expects managers to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

The Group approaches strategic risk management by:

- Including in the strategy review process an impact analysis on the risk profile from the growth plans, strategic initiatives and business model vulnerabilities with an aim to proactively identify and manage new risks or existing risks that need to be reprioritised;
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved risk appetite and or propose additional Risk Appetite for Board consideration; and
- Validating the corporate plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five-year Corporate Plan with a confirmation from the Regional / Country Chief Risk Officer ("CRO") that it is aligned with the ERMF and the Regional / Country Risk Appetite Statement where projections allow.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****Risk management approach (continued)*****Roles and responsibilities****Three Lines of Defence model*

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

Lines of Defence	Definition	Key responsibilities
First	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks	<ul style="list-style-type: none"> Propose the risks required to undertake revenue-generating. Identify, monitor, and escalate risks and issues to Second Line and the Senior Management and promote a healthy risk culture and good conduct. Manage risks within Risk Appetite, ensure laws and regulations are being complied with. Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line.
Second	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Chief Risk Officer, the Senior Management and the Board	<ul style="list-style-type: none"> Identify, monitor, and escalate risks and issues to the Chief Risk Officer, the Senior Management and the Board or Board level committees, and promote a healthy risk culture and good conduct. Oversee and challenge First Line risk taking activities and review First Line risk proposals. Propose Risk Appetite ("RA") to the Board, monitor and report adherence to RA and intervene to curtail business if it is not in line with existing or adjusted RA, if there is material non-compliance with policy requirements or when operational controls do not effectively management risk. Set risk data aggregation, risk reporting and data quality requirements. Ensure that there are appropriate controls to comply with applicable laws and regulations, and escalate significant non-compliance matters to senior management and the appropriate committees.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****Risk management approach (continued)****Roles and responsibilities (continued)**

Lines of Defence	Definition	Key responsibilities
Third	The internal audit function provides independent assurance over the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Audit Committee of the Board	<ul style="list-style-type: none"> Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. Independently assess the adequacy of the design of controls and their operating effectiveness.

The Risk function

The Chief Risk Officer directly manages the Risk function that is separate and independent from the origination, trading and sales functions of the businesses. The Risk function is responsible for:

- Maintaining the ERMF, ensuring it remains appropriate to the Group's business activities, is effectively communicated and implemented across the Group and administering related governance and reporting processes;
- Upholding the overall integrity of the Group's risk and return decisions to ensure that risks are properly assessed that these decisions are made transparently on the basis of this proper assessment and that risks are controlled in accordance with the Group's standards and RA; and
- Overseeing and challenging the management of Principle Risk Types under the ERMF.

The independence of the Risk function is to ensure that the necessary balance in making risk and return decisions is not compromised by short-term pressures to generate revenues.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

The Risk function supports the Group's commitment to be Here for good by building a sustainable framework that places regulatory and compliance standards, and a culture of appropriate conduct at the forefront of the Group's agenda in a manner proportionate to the nature, scale and complexity of the Group's business.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

Risk management approach (continued)

Risk Appetite and profile

The Group recognises the following constraints which determine the risks that the Group is willing to take in pursuit of its strategy and the development of a sustainable business:

- **Risk capacity** is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements, internal operational environment (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies.
- **Risk appetite** is defined by the Group and approved by the Board. It is the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy. Risk appetite cannot exceed risk capacity.

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters, known as Risk Appetite metrics and associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Group. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

Risk Appetite Principles: The Group's Risk Appetite is in accordance to its overall approach to risk management and its risk culture. The Group follows the highest ethical standards required by its stakeholders and ensure a fair outcome for its clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. The Group sets its risk appetite to enable it to grow sustainably and to avoid shocks to earnings or its general financial health and to manage its reputational risk in a way that would not materially undermine the confidence of its investors and all internal and external stakeholders.

Risk Appetite Statement: The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns.

The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within risk appetite (and therefore also risk capacity). Status against risk appetite is reported to the Board Risk Committee, the Regional Executive Risk Committee ("RERC") on the consolidated basis and the Executive Risk Committee ("ERC") on the solo basis. This includes the reporting of breaches.

The RERC and the Regional Asset and Liability Committee ("RALCO") are responsible for ensuring that the Group's risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee advises the Board on the Risk Appetite Statement and monitors the Group's compliance with it.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

Risk management approach (continued)

Risk identification and assessment

Identification and assessment of potential adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication the Group uses Principal Risk Types to classify its risk exposures. Nevertheless, the Group also recognises the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

To facilitate the above, the Group maintains a dynamic risk scanning process with inputs on the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives. The Group maintains an inventory of the Principal Risk Types and sub-types that are inherent to the strategy and business model, near-term emerging risks that can be measured and mitigated to some extent, and uncertainties that are longer-term matters that should be on the radar but are not yet fully measurable.

The Regional Chief Risk Officer and the RERC review regular reports on the risk profile for the Principal Risk Types, adherence to the approved Risk Appetite and the Group risk inventory including emerging risks. They use this information to escalate material developments in each risk event and make recommendations to the SCBHK Board on any potential changes to our Corporate Plan.

Stress testing

The objective of stress testing is to support the Group in assessing that it:

- Does not have a portfolio with excessive concentrations of risk that could produce unacceptably high losses under severe but plausible scenarios;
- Has sufficient financial resources to withstand severe but plausible scenarios;
- Has the financial flexibility to respond to extreme but plausible scenarios; and
- Understands the Group's key business model risks, considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and has identified, as required, actions to mitigate the likelihood and/or the impact of those events.

Enterprise Stress Tests include Capital and Liquidity Adequacy Stress Tests including in the context of Recovery and Resolution and stress tests that assess scenarios where the Group's business model becomes unviable such as Reverse Stress tests.

Various stress tests are performed at country, business and portfolio level. Bespoke scenarios are applied to the Group's market and liquidity positions. In addition to these, stress tests may also focus on the potential impact of macroeconomic, geo-political and physical events on relevant regions, client segments and risk types.

The Board delegates the approval of the Enterprise Stress Tests to Board Risk Committee. The Board Risk Committee relies on the recommendation from the RERC on the consolidated basis and the ERC on the solo basis. A Stress Testing Forum is appointed by the RERC to review and challenge the Stress Tests.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

Stress testing (continued)

Based on the stress test results, the Chief Risk Officer and Chief Financial Officer can recommend strategic actions to ensure that the Group strategy remains within the Board approved Risk Appetite.

Principal risk types

Principal Risk Types are risks that are inherent in the Group's strategy and the Group's business model and have been formally defined in the Group's ERMF. These risks are managed through distinct Risk Type Frameworks ("RTF") which are approved by the Chief Risk Officer and the RERC. The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

The table below shows the Group's current Principal Risk Types:

Principal risks

Credit Risk	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group.
Country Risk	Potential for default losses due to political or economic events in a country.
Traded Risk	Potential for loss resulting from activities undertaken by the Group in financial markets.
Capital & liquidity Risk	Capital: potential for insufficient level, composition or distribution of capital to support or normal activities. Liquidity: potential for loss where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.
Operational Risk	Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events (including legal risks).
Reputational Risk	Potential damage to the franchise, resulting in loss of earnings or adverse impact on the market capitalization because stakeholders taking a negative view of the organisation, its actions or inactions – leading stakeholders to change their behaviour.
Compliance Risk	Potential for penalties or loss to the Group or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws or regulations.
Conduct Risk	Risk of detriment to the Group's customers and clients, investors, shareholders or to the integrity of the markets we operate through a failure on our part to comply with laws or regulations.
Information and Cyber Security Risk	Risk to the Group's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

Principal risk types (continued)

Principal risks

Financial Crime Risk	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption.
Model Risk	Potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of Models, due to errors in the development, implementation or use of such models.

Executive and Board risk oversight

Overview

The Board has ultimate responsibility for risk management and is supported by the Executive Committee, Board Audit Committee, Board Risk Committee and Nomination Committee. The Board approves the ERMF based on the recommendation from the Board Risk Committee, which also recommends the Group risk appetite statement.

The Board appoints the Executive Committee to maintain a sound system of internal control and risk management. The RERC, through its authority delegated by the Board via Executive Committee, oversees effective implementation of the ERMF and is responsible for the management of all risks other than those delegated to the RALCO and the Country Pensions Committee. The Regional Chief Risk Officer, as Chair of the RERC, approves the use of sub-committees and forums to support the RERC overseeing risk at Region, Business, Country, or Principal Risk Type level.

The Board Risk Committee receives regular reports on risk management, including the Group's portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Board Risk Committee also conducts deep dive reviews on a rolling basis of different sections of the consolidated risk information report that is provided at each scheduled committee meeting.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board to the appropriate functional, client segment and country-level senior management and committees. Information regarding material risk issues and compliance with policies and standards is communicated to the appropriate client segment, functional and senior management and committees.

Regional Executive Risk Committee

The RERC is responsible for ensuring the effective management of risk throughout the Group in support of the Group's strategy. The Regional Chief Risk Officer chairs the RERC, whose members are drawn from the management team. The Committee determines the overall ERMF for the Group on consolidate basis, including the delegation of any part of its authorities to appropriate individuals or properly constituted committees. The RERC is supported by the Hong Kong Executive Risk Committee ("HKERC") in managing matters on solo perspective (jointly referred to as ERCs).

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

Executive and Board risk oversight (continued)

The RERC requests and receives information to fulfil its governance mandates relating to the risks to which the Group is exposed. As with the Board Risk Committee, the RERC and RALCO receive reports that include information on risk measures, Risk Appetite metrics and thresholds, risk concentrations, forward-looking assessments, updates on specific risk situations or actions agreed by these committees to reduce or manage risk.

Asset and Liability Committee

The ALCO is chaired by the Chief Executive Officer. The ALCO will guide the Group's strategy on balance sheet optimization and ensure that, in executing its strategy, the Group operates within internally approved risk appetite and external regulatory requirements relating to liquidity, capital, loss absorbing capacity, leverage, interest rate risk in banking book ("IRRBB"), banking book basis risk, structural foreign exchange risk and meets internal and external recovery planning requirements.

Country Pensions Committee

The Chief Executive Officer supported by an appointed Country Pensions Committee is responsible for the overall retirement benefits arrangements for the Group.

Risk profile

The Group manages and controls our Principal Risk Types through distinct risk types frameworks, policies and Board-approved Risk Appetite.

(a) Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures may arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. The Group manages its credit exposures following the principle of diversification across products, regions, industries, collateral types and client segments.

The credit quality of the portfolio continues to benefit from steps taken over the last two years, with more recent added focus on the implementation of a more granular risk appetite and active portfolio management.

SC PLC group-wide credit policies and standards are established and approved by SC PLC's Group Risk Committee ("GRC") or individuals with authority delegated. The GRC oversees the delegation of credit approval and loan impairment provisioning authorities. The principles for the delegation, review and maintenance of credit approval authorities are defined in the Risk Authorities policy. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

The RERC and the ERC ("the ERCs"), as appropriate, approve policies and standards based on those approved by GRC. When approving risk policies and standards, each of the RERC and ERC take into account the requirements of the local Hong Kong regulations and the guidelines issued by the HKMA.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)*****Credit rating and measurement***

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions.

Since 1 January 2008, the Group has used the Advanced Internal Ratings-Based (“IRB”) approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk-grade system for Corporate & Institutional Banking and Commercial Banking is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numeric credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Retail Banking IRB portfolios use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system. The Group refers to external ratings from credit bureau, however, the Group does not rely solely on these to determine Retail Banking credit grades.

Advanced IRB models cover a substantial majority of the Group’s exposure and are used in assessing risks at customer and portfolio level, setting strategy and optimising the Group’s risk-return decisions.

IRB risk measurement models are approved by the RERC, on the recommendation of the Model Assessment Forum (“MAF”). Prior to review by the MAF, all IRB models are validated in detail by a model validation team, which is separate from the teams which develop and maintain the models. Models undergo annual validation by the model validation team. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process which takes place between the annual validations.

Credit Approval

The Bank has been locally incorporated since 1 July 2004. Since then, the approval process reflects strategic decisions that are being made in accordance with individual managers’ delegated authorities and the terms of reference of appropriate committees. It is recognised that, as a major part of SC PLC, all significant risk decisions emanating from individual countries have an impact to SC PLC, be it regulatory, concentration, strategic, etc. It is therefore recognised that it is essential for SC PLC to consider such transactions to ensure that these issues are included as part of the decision making process. Delegated authorities approved by the RERC are delegated to the key risk managers to ensure that all risk decisions are made within the Group.

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client’s credit quality, including willingness, ability and capacity to repay. The primary lending consideration is usually based on the client’s credit quality and the repayment capacity from operating cash flows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to the client’s liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client’s credit quality leading to default. Lending activities that are considered as high risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorised body.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)*****Credit Approval (continued)***

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties based on control and economic dependence criteria. Risk appetite metrics are set at portfolio level and monitored to control concentration, where appropriate, by industry, specific product, tenor, collateralisation level and top clients clients-risk profile.

Credit concentrations are monitored by the RERC and HKERC and concentration limits that are material to the Group are reviewed and approved at least annually by the RERC and HKERC.

Credit monitoring

The Group regularly monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports that are presented to risk committees contain information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

The Credit Issues Committee ("CIC") meets regularly to assess the impact of external events and trends on the Corporate & Institutional Banking and Commercial Banking credit risk portfolios and to define and implement the Group's response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Client accounts are placed on Early Alert when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by the CIC. Client account strategies and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management ("GSAM"), the Group's specialist recovery unit.

The Retail Banking Credit Issues Forum ("CIF") is a sub-forum of the ERC. The CIF meets regularly to assess relevant credit matters, which include market developments with direct credit implications, credit policy changes, prominent or emerging credit concerns, portfolio performance monitoring, and mitigating actions.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due or charge-off are subject to a collections or recovery process respectively and managed independently by the Risk function.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)*****Credit mitigation***

Credit policies set out the key consideration for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Collateral types which are eligible for risk mitigation include: cash; account receivables; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; risk participations; guarantees; credit insurance; and standby letters of credit. The Group also enters into collateralised reverse repurchase agreements. Physical collateral, such as property, fixed assets and commodities, and financial collateral must be independently valued, and an active secondary resale market must exist. The collateral must be valued prior to drawdown and regularly thereafter. The valuation frequency is at minimum annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. For financial collateral to be eligible for recognition the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Group to realise the collateral without the cooperation of the obligor in the event that this is necessary.

For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance, standby letter of credit or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include banks, insurance companies, parent companies, governments and export credit agencies.

Traded Products

Credit risk from traded products derives from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential future market movements. This counterparty credit risk is managed within the Group's overall credit risk appetite for corporate and financial institutions. In addition to analysing potential future movements, the Group uses various single and multi-risk factor stress test scenarios to identify and manage counterparty credit risk across derivatives and securities financing transactions.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(a) Credit risk (continued)

Credit mitigation (continued)

Securities

Within Corporate & Institutional Banking and Commercial Banking, the portfolio limits and parameters for the underwriting and purchase of all pre-defined securities assets to be held for sale are approved by the Group's Excess Approval Committee with support by the Group's Underwriting Committee ("UC"). The Excess Approval Committee is established under the authority of ERC. Corporate & Institutional Banking and Commercial Banking business operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the UC. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The UC approves individual proposals to underwrite new corporate security issues for clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests within the Risk function.

HKFRS 9/IFRS 9 methodology

Approach for determining expected credit losses

Credit loss terminology

Component	Definition
Probability of default ("PD")	<p>The probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts.</p> <p>The PD is estimated at a point in time which means it will fluctuate in line with the economic cycle. The term structure of the PD is based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.</p>
Loss given default ("LGD")	<p>The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive.</p> <p>The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.</p>
Exposure at default ("EAD")	<p>The expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.</p>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)***Credit loss terminology (continued)*

To determine the expected credit loss, these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the year-end x EAD at the year-end) and discounted to the balance sheet date using the effective interest rate as the discount rate.

Although the HKFRS 9/IFRS 9 models leverage the existing Basel advanced IRB risk components, several significant adjustments are required to ensure the resulting outcome is in line with the HKFRS 9/IFRS 9 requirements.

Key differences between regulatory and IFRS expected credit loss models

	Basel advanced IRB Expected Loss (EL)	HKFRS 9/IFRS 9 Expected credit loss
Rating philosophy	Mix of point-in-time, through-the-cycle or hybrid	Point-in-time, forward looking
Parameters calibration	Often conservative, due to regulatory floors and downturn calibration	Unbiased estimate, based on conditions known at the balance sheet date
– PD		Inclusion of forward-looking information and removal of conservatism and bias
– LGD		Removal of regulatory floors, exclusion of non-direct costs
– EAD	Floored at outstanding amount	Recognises ability to have a reduction in exposure from the balance sheet date to the default date
Timeframe	12-month period	Up to 12 months and lifetime
Discounting applied	Discounting at the weighted average cost of capital to the time of default	Discounting at the effective interest rate (“EIR”) to the balance sheet reporting date

Global IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses. Given the global nature of these portfolios; these models are global in nature at the base level. However, for some of the most material countries, country-specific models have been developed for the Corporate & Institutional Banking and Commercial Banking clients.

The calibration of forward-looking information is assessed at a country level to take into account local macroeconomic conditions.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

Retail banking expected credit loss models are country and product specific given the local nature of the Retail Banking business.

For less material Retail Banking loan portfolios, the SC PLC Group has adopted simplified approaches based on historical roll rates or loss rates:

- For medium-sized Retail Banking portfolios, a roll rate model is applied, which uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.
- For smaller Retail Banking portfolios, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.

Application of lifetime

Expected credit loss is estimated based on the shorter of the expected life and the maximum contractual period for which the Group is exposed to credit risk. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities, however, the Group does not typically enforce the contractual period. As a result, for these instruments, the lifetime of the exposure is based on the period the Group is exposed to credit risk. This period has been determined by reference to the extent to which credit risk management actions curtail the period of exposure. For credit cards, this has resulted in an average life of between 3 and 10 years across the SC PLC Group's footprint markets. Overdraft facilities have a 22-month lifetime.

Key assumptions and judgements in determining expected credit loss***Incorporation of forward-looking information and the impact of non-linearity***

The evolving economic environment is a key determinant of the ability of a bank's clients to meet their obligations as they fall due. It is a fundamental principle of HKFRS 9/IFRS 9 that the provisions held against potential future credit risk losses should depend not just on the health of the economy today, but should also take account of potential changes to the economic environment in the future. For example, if a bank were to anticipate a sharp slowdown in the world economy over the coming year, it should hold more provisions today to absorb the credit losses likely to occur in the near-future.

To capture the effect of changes to the economic environment in the future, the computation of PD, LGD and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients. For example, economic variables specific to individual countries include economic growth, interest rates, unemployment rates, property prices, and prices of assets that trade on global markets such as oil, industrial metals and other commodities. Less sophisticated approaches, such as loss rate models, do not directly incorporate forward-looking information.

The starting point for the projections of economic variables and asset prices is based on management's view, which underlies the plan to deliver the Group's strategy and ensure that it has sufficient capital over the medium term.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

Management's view covers a core set of economic variables and asset prices required to set the strategic plan. To reach the full set of economic variables and asset prices required to compute expected credit loss for all the SC PLC Group's clients in all the SC PLC Group's footprint markets, management's view is augmented with projections from the SC PLC Group's in-house research team and outputs from a range of models that project specific economic variables and asset prices.

Forecast of key macroeconomic variables underlying the expected credit loss calculation

The base forecast – management's view of the most likely outcome – is that the synchronised expansion of the global economy will continue over the coming years alongside a normalisation of monetary policy in the developed world and the successful rebalancing of the Chinese economy, with US-China trade tensions putting China's export sectors under some pressure.

While the most likely outcome is the basis for the Group's strategic plan, one of the key requirements of HKFRS 9/IFRS 9 is that the assessment of provisions should be based on a range of potential outcomes for the future economic environment. For example, the global economy may grow more quickly or more slowly than the most likely outcome and these variations would have different implications for the provisions that the Group should hold today. As the Group's clients tend to be more affected when the economic environment weakens than when it strengthens, it is possible that the range of expected credit loss outcomes resulting from a range of scenarios around the most likely scenario may be skewed to the downside. So, if the Group computes expected credit loss uniquely on the basis of the most likely outcome, it might not end up with the appropriate level of provisions. This is the concept of non-linearity in expected credit loss under HKFRS 9/IFRS 9.

To address the potential non-linearity in expected credit loss, the Group simulates a set of scenarios around the base forecast and generates 50 scenarios upon which to compute expected credit loss. These scenarios are generated by a Monte Carlo simulation, which considers the degree of uncertainty (or volatility) around economic outcomes, how these outcomes have tended to move in relation to one another together (or correlation).

While the 50 scenarios do not each have a specific narrative, they reflect a range of plausible hypothetical alternative outcomes for the global economy. Some imply an unwinding of the current shocks and uncertainty leading to higher global economic activity and higher asset prices while others represent an intensification of current shocks or introduction of new shocks that raise uncertainty, leading to lower global economic activity and lower asset prices.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

Credit-impaired assets managed by Group Special Assets Management (“GSAM”) incorporate forward-looking economic assumptions in respect of the recovery outcomes identified and are assigned individual probability weightings. These assumptions are not based on a Monte Carlo simulation but are informed by the base forecast.

Significant increase in credit risk (“SICR”)**Quantitative criteria**

SICR is assessed by comparing the risk of default at the reporting date to the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business and where meaningful are consistently applied across business lines.

Assets are considered to have experienced SICR if they have breached both relative and absolute thresholds for the change in the average annualised lifetime probability of default over the residual term of the exposure.

The absolute measure of increase in credit risk is used to capture instances where the PDs on exposures are relatively low at initial recognition as these may increase by several multiples without representing a significant increase in credit risk. Where PDs are relatively high at initial recognition, a relative measure is more appropriate in assessing whether there is a significant increase in credit risk, as the PDs increase more quickly.

For Corporate & Institutional Banking and Commercial Banking clients, the relative threshold is a 100 percent increase in PD and the absolute change in PD is between 50-100 basis points.

For Retail Banking clients, the relative threshold is a 100 percent increase in PD and the absolute change in PD is between 100-350 basis points depending on the product.

Private Banking clients are assessed qualitatively, based on a delinquency measure relating collateral top-ups or sell-downs.

Debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities to stage 2.

Qualitative factors that indicate there has been a significant increase in credit risk include processes linked to current risk management, such as placing loans on non-purely precautionary Early Alert, or through delinquency measures.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

The SICR thresholds have been calibrated based on the following principles:

- Stability – The thresholds are set to achieve a stable stage 2 population at a portfolio level, trying to minimise the number of accounts moving back and forth between stage 1 and stage 2 in a short period of time
- Accuracy – The thresholds are set such that there is a materially higher propensity for stage 2 exposures to eventually default than is the case for stage 1 exposures
- Dependency from backstops – The thresholds are stringent enough such that a high proportion of accounts transfer to stage 2 due to movements in forward-looking PD rather than relying on backward-looking backstops such as arrears
- Relationship with business and product risk profiles – The thresholds reflect the relative risk differences between different products, and are aligned to business processes

Qualitative criteria

Qualitative factors that indicate there has been a significant increase in credit risk include processes linked to current risk management.

Backstop

Across all portfolios, accounts that are 30 or more days past due (“DPD”) on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

Expert credit judgement may be applied in assessing significant increase in credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events arising close to the reporting date.

Corporate & Institutional Banking and Commercial Banking clients**Quantitative criteria**

Exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date as described above.

To account for the fact that the mapping between internal credit grades (used in the origination process) and PDs is non-linear (e.g. a one-notch downgrade in the investment grade universe results in a much smaller PD increase than in the sub-investment grade universe), the absolute thresholds have been differentiated by credit quality at origination, as measured by internal credit grades being investment grade or sub-investment grade.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)****Qualitative criteria**

All assets of clients that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk.

An account is placed on non-purely precautionary Early Alert if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

All client assets that have been assigned a CG12 rating, equivalent to 'Higher Risk', are deemed to have experienced a significant increase in credit risk. Accounts rated CG12 are managed by the GSAM unit. All Corporate & Institutional Banking and Commercial Banking clients are placed on CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

Retail Banking clients**Quantitative criteria**

Material portfolios for which a statistical model has been built are assessed based on both the absolute and relative movement in the PD from origination to the reporting date as described above. For these portfolios, the original lifetime PD term structure is determined based on the original Application Score or Risk Segment of the client.

Qualitative criteria

Accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, significant increase in credit risk is primarily assessed through the 30 DPD trigger.

Private Banking clients

For Private Banking clients, significant increase in credit risk is assessed by referencing the nature and the level of collateral against which credit is extended (known as 'Classes of Risk').

Qualitative criteria

For all Private Banking Classes, in line with risk management practice, an increase in credit risk is deemed to have occurred where margining or loan-to-value covenants have been breached.

For Class I assets, if these margining requirements have not been met within 30 days of a trigger, significant credit deterioration is assumed to have occurred.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

For Class I and Class III assets, a significant increase in credit risk is assumed to have occurred where the bank is unable to 'sell down' the applicable assets to meet revised collateral requirements within 5 days of a trigger.

Class II assets are typically unsecured or partially secured or secured against illiquid collateral such as shares in private companies. Significant credit deterioration of these assets is deemed to have occurred when any Early Alert trigger has been breached.

Debt Securities**Quantitative criteria**

The bank is utilising the low credit risk simplified approach. All debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities are allocated to stage 2.

Qualitative criteria

Debt securities utilise the same qualitative criteria as the Corporate & Institutional Banking and Commercial Banking client segments, including being placed on Early Alert or being classified as credit grade 12.

Assessment of credit-impaired financial assets**Retail Banking Clients**

The core components in determining credit-impaired expected credit loss provisions are the value of gross charge off and recoveries. Gross charge off and/or loss provisions are recognised when it is established that the account is unlikely to pay through the normal process. Recovery of unsecured debt post credit-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit-impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision). If the loan is paid to current and remains in current for more than 180 days (1 year for forbore loans) the account will be transferred to stage 2.

Corporate & Institutional Banking, Commercial Banking and Private Banking Clients

Credit-impaired accounts are managed by the Group's specialist recovery unit, GSAM which is independent from its main businesses. Where any amount is considered irrecoverable, a stage 3 credit-impairment provision is raised. This stage 3 provision is the difference between the loan carrying amount and the probability weighted present value of estimated future cash flows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cash flows include realisable collateral, the values used will incorporate the impact of forward looking economic information.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(a) Credit risk (continued)**

The individual circumstances of each client are considered when GSAM estimates future cash flows and timing of future recoveries which involve significant judgement. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Write-offs

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

Governance and application of expert credit judgement in respect of expected credit losses

Expected credit loss models are approved by the RERC, on the recommendation of the Model Assessment Forum ("MAF"), who assesses the model for fitness for purpose and adequacy to interpretation of HKFRS 9/IFRS 9 requirements. Prior to review by the MAF, all models used for expected credit loss computation are validated in detail by an independent model validation team, which is separate from the teams which develop and maintain the models. Models undergo annual validation by the model validation team and results are presented to MAF for oversight and recommendation to RERC on decisions for continued use of models.

Key inputs into the calculation and resulting expected credit loss provisions are subject to review and approval by Risk, Finance and Economic Research. Risk and Finance jointly review and approve the expected credit loss provisions and any judgmental override that may be necessary on a quarterly basis.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)**

Expected credit loss for financial assets classified as stages 1, 2 and 3 for each reporting period, as well as material adjustments and overlays are reviewed and approved by Risk and Finance functions. Macroeconomic forecasts are approved via the Credit Issue Committee on a quarterly basis and utilised in the forward-looking expected credit loss computation.

Management overlay – COVID-19

As at 31 December 2020, the Group held a HK\$279 million management overlay relating to uncertainties as a result of the COVID-19 pandemic, HK\$175 million of which relates to Corporate & Institutional Banking and Commercial Banking and HK\$104 million to Retail Banking.

Corporate & Institutional Banking and Commercial Banking

The amount of loans placed on non-purely precautionary early alert increased significantly over 2020 as the impact of COVID-19 was evaluated on the Group's portfolio. However, the impact of the rapid deterioration in the economic environment in 2020 has not yet been fully observed in customers' financial performance. In part this has been due to ongoing government support measures across the Group's markets and we have not yet seen a significant increase in the level of stage 3 loans relating to COVID-19 as at 31 December 2020. To take account of the heightened credit risk and the continuing uncertainties in the pace and timing of economic recovery, a judgemental overlay has been taken by estimating the impact of further deterioration to the non-purely precautionary early alert portfolio. All of the overlay is held in stage 2.

Retail Banking

A number of components contribute to the judgemental overlay for Retail Banking. Within Business Banking, the Group has evaluated those sectors that have been adversely impacted by COVID-19 to understand how customers have been affected. The Group has also considered the extent to which lockdowns have impacted collections and recoveries, and the extent to which payment reliefs may mask underlying credit risks.

Maximum exposure to credit risk

The maximum exposures to credit risk of on-balance sheet financial instruments, before taking account of any collateral or other credit enhancements is the carrying amount reported on the statement of financial position. For off-balance sheet instruments, the maximum exposure to credit risk, which excludes loan commitments which are unconditionally cancellable, is the contractual nominal amounts as set out below:

	<i>2020</i>	<i>2019</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>
Financial guarantees and other credit related contingent liabilities	67,207	56,960
Loan commitments and other credit related commitments	167,322	141,036
	<u>234,529</u>	<u>197,996</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)**

The requirement for collateral is not a substitute for the ability to pay. However, it is an important consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due nor credit impaired, the Group has assessed the significance of the collateral held in relation to the type of lending.

*(i) Loans and advances**Loans not credit impaired*

At 31 December 2020, the Group has HK\$485,126 million (2019: HK\$433,405 million) of mortgage loans in Retail Banking that are not credit impaired. These are generally fully secured exposures (2019: fully secured).

In Corporate & Institutional Banking and Commercial Banking, the Group has HK\$418,861 million (2019: HK\$396,603 million) of corporate exposures that are not credit impaired. Based on the fair value of the collateral held, 19% (2019: 20%) of these exposures are secured by collateral.

The Group also undertakes collateralised lending and borrowing (reverse repos and repos) arrangements, and the collateral held against these types of loans are set out in note 36 to the financial statements.

Repossessed collateral

As at 31 December, the amount of assets obtained by taking possession of collateral held as security was as follows:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Property, plant and equipment	<u>54</u>	<u>62</u>

Loan collateral acquired from borrowers due to restructuring or their inability to repay, continues to be recorded as "Advances to customers" in the statement of financial position at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowances), until the collateral is realised.

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

(ii) Off-balance sheet exposures

For certain types of exposures such as letters of credit and guarantees, the Group obtains collateral such as cash depending on internal credit risk assessments. However, for trade finance products such as letters of credit, the Group will normally hold legal title to the underlying assets should a default take place.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)****Credit quality***Loans and advances*

The following table sets out an analysis of the credit quality for loans and advances.

Mapping of credit quality

The group uses the following internal risk mapping to determine the credit quality for loan.

<i>Credit quality description</i>	<i>Corporate & Institutional Banking and Commercial Banking</i>	<i>Private Banking¹</i>	<i>Retail Banking</i>
	<i>Default grade mapping</i>	<i>Internal ratings</i>	<i>Number of days past due</i>
Strong	Grade 1 - 5	Class I and Class IV	Current loans (neither past due nor impaired)
Satisfactory	Grade 6 - 8 Grade 9 - 11	Class II and Class III	Up to 29 days
Higher Risk	Grade 12	GSAM managed	30 to 90 days

¹ For Private Banking, classes of risk represent the type of collateral held. Class I represents facilities with liquid collateral, such as cash and marketable securities. Class II represents unsecured/partially secured facilities and those with illiquid collateral, such as equity in private enterprises. Class III represents facilities with residential or commercial real estate collateral. Class IV covers margin trading facilities.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)****Credit quality (continued)***Loans and advances (continued)*

	2020		2019	
	<i>Advances to customers</i> HK\$'M	<i>Advances to banks and other financial institutions</i> HK\$'M	<i>Advances to customers</i> HK\$'M	<i>Advances to banks and other financial institutions</i> HK\$'M
Stage 1				
– Strong	894,851	123,172	799,357	121,018
– Satisfactory	140,330	5,973	153,171	7,220
Stage 2				
– Strong	12,366	20	16,947	1
– Satisfactory	40,688	177	35,273	1,046
– Higher risk	1,645	–	1,768	–
<i>Of which (stage 2):</i>				
– <i>Less than 30 days past due</i>	832	–	1,483	–
– <i>More than 30 days past due</i>	677	189	825	177
Stage 3, credit impaired	7,327	–	5,250	–
Gross loans and advances	<u>1,097,207</u>	<u>129,342</u>	<u>1,011,766</u>	<u>129,285</u>

Debt securities

The following table analyses debt securities (including certificates of deposit) and treasury bills. The standard credit ratings used by the Group are those used by Standard & Poor's or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer.

	2020		2019	
	<i>Treasury bills</i> HK\$'M	<i>Other debt securities</i> HK\$'M	<i>Treasury bills</i> HK\$'M	<i>Other debt securities</i> HK\$'M
AAA	851	117,858	3,602	82,803
AA- to AA+	68,086	216,302	83,828	158,324
A- to A+	24,241	167,842	19,650	123,783
Lower than A-	–	18,315	–	15,591
Unrated	–	14,965	–	4,958
Gross amount of debt securities	<u>93,178</u>	<u>535,282</u>	<u>107,080</u>	<u>385,459</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)*****Movement in credit impairment***

The table below sets out the movement in gross exposures and credit impairment by stage in respect of advances to customers. Gross exposures in this context means the balance sheet amount outstanding, together with undrawn committed facilities and undrawn cancellable facilities relating to overdrafts and credit cards.

Impairment allowances on loans to banks, debt securities and financial guarantees are not material to the Group.

The table is an aggregate of monthly movements. Transfers between stages are deemed to occur at the beginning of a month and therefore amounts transferred net to zero. The re-measurement of expected credit loss resulting from a change in stage is reported within the profit and loss line of the stage in which they are transferred to.

Loans and advances to customers

	Stage 1			Stage 2			Stage 3			Total		
	Total	Net	Gross	Total	Net	Gross	Total	Net	Gross	Total	Net	Gross
	credit	carrying		credit	carrying		credit	carrying		credit	carrying	
	balance	impairment	amount	balance	impairment	amount	balance	impairment	amount	balance	impairment	amount
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
At 1 January 2020	952,528	1,272	951,256	53,988	817	53,171	5,250	2,642	2,608	1,011,766	4,731	1,007,035
Net changes in loss allowance during the period:												
Net transfers between stages	(78,019)	1,474	(79,493)	73,019	(2,147)	75,166	5,000	673	4,327	-	-	-
Net changes in exposures	131,816	950	130,866	(73,987)	125	(74,112)	(1,342)	(1,550)	208	56,487	(475)	56,962
Net changes in risk parameters	-	(1,472)	1,472	-	1,496	(1,496)	-	2,926	(2,926)	-	2,950	(2,950)
Net re-measurement from stage change	-	(592)	592	-	629	(629)	-	64	(64)	-	101	(101)
Unwinding discount	-	-	-	-	-	-	-	(69)	69	-	(69)	69
Write offs	-	-	-	-	-	-	(2,406)	(2,352)	(54)	(2,406)	(2,352)	(54)
Exchange translation and others	28,856	(55)	28,911	1,679	4	1,675	825	716	109	31,360	665	30,695
At 31 December 2020	<u>1,035,181</u>	<u>1,577</u>	<u>1,033,604</u>	<u>54,699</u>	<u>924</u>	<u>53,775</u>	<u>7,327</u>	<u>3,050</u>	<u>4,277</u>	<u>1,097,207</u>	<u>5,551</u>	<u>1,091,656</u>
Income statement charge/(release)		<u>(1,114)</u>			<u>2,250</u>			<u>1,440</u>			<u>2,576</u>	

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(a) Credit risk (continued)****Movement in credit impairment (continued)***Loans and advances to customers (continued)*

	Stage 1			Stage 2			Stage 3			Total		
	Total	Net	Gross	Total	Net	Gross	Total	Net	Gross	Total	Net	Gross
	credit	carrying		credit	carrying		credit	carrying		credit	carrying	
	balance	impairment	amount	balance	impairment	amount	balance	impairment	amount	balance	impairment	amount
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
At 1 January 2019	899,561	1,254	898,307	28,979	639	28,340	5,983	2,601	3,382	934,523	4,494	930,029
Net changes in loss allowance during the period:												
Net transfers between stages	(72,756)	1,161	(73,917)	68,776	(1,613)	70,389	3,980	452	3,528	-	-	-
Net changes in exposures	136,786	328	136,458	(43,373)	(69)	(43,304)	(2,951)	(2,189)	(762)	90,462	(1,930)	92,392
Net changes in models	-	(64)	64	-	(131)	131	-	-	-	-	(195)	195
Net changes in risk parameters	-	(911)	911	-	1,289	(1,289)	-	3,140	(3,140)	-	3,518	(3,518)
Net re-measurement from stage change	-	(479)	479	-	706	(706)	-	22	(22)	-	249	(249)
Unwinding discount	-	-	-	-	-	-	-	(82)	82	-	(82)	82
Write offs	-	-	-	-	-	-	(2,062)	(1,363)	(699)	(2,062)	(1,363)	(699)
Exchange translation differences	(11,063)	(17)	(11,046)	(394)	(4)	(390)	300	61	239	(11,157)	40	(11,197)
At 31 December 2019	<u>952,528</u>	<u>1,272</u>	<u>951,256</u>	<u>53,988</u>	<u>817</u>	<u>53,171</u>	<u>5,250</u>	<u>2,642</u>	<u>2,608</u>	<u>1,011,766</u>	<u>4,731</u>	<u>1,007,035</u>
Income statement charge/(release)		<u>(1,126)</u>			<u>1,795</u>			<u>973</u>			<u>1,642</u>	

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(b) Country risk

The Group defines Country Risk as the potential for default or losses due to political or economic events in a country. The Group manages its country cross-border exposures following the principle of diversification across geographies and control the business activities in line with the level of jurisdiction risk.

Roles and responsibilities

The Country Risk Type Framework states the accountabilities and roles for managing risk through the three lines of defence model. The Global Head, Enterprise Risk Management is responsible for the management and control of Country Risk across the Group and is supported by the Regional / Country Chief Risk Officers (“CRO”) who provide second line oversight and challenge to the first line Country Risk management activities. The first line ownership of Country Risk resides with the Regional and Country Chief Executive Officer (“CEO”) who are responsible for the implementation of policy and allocation of approved Country Risk limits across relevant businesses and product lines, as well as the identification and measurement of Country Risks and communication of these and any non-compliance with policy or standards to the second line.

Mitigation

The Risk Type Framework, Standards and the related Addendums are developed and deployed to implement requirements and controls to ensure effective management of country risk and compliance with the Group and the HKMA requirements. The documents outline the operating mechanisms including i) Country Risk classification; ii) Country Risk limit setting; and iii) exposure monitoring and reporting. The documents also specify the Country Risk identification and assessment conducted at the Group level, such as out-of-cycle review, which may cause a downgrade in the sovereign rating and, trigger the reduction in country limits.

Governance Committee Oversight

At the Board level, the Board Risk Committee oversees the effective management of Country Risk. At the executive level, the RERCs are responsible for approving policies and control risk parameters, monitoring material risk exposures and directing appropriate action in response to material risk issues or themes that come to the Committee’s attention that relate to Country Risk.

Decision Making authorities and delegation

The Country Risk Type Framework is the formal mechanism through which the delegation of Country Risk authorities is made.

The authorised recipient must have the required experience and judgement to exercise the proposed risk authorities and must either meet the applicable certification and/or experience requirements. The authorised delegators are responsible for monitoring the quality of the risk decisions taken by their delegates and the ongoing suitability of their authorities.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(b) Country risk (continued)****Monitoring**

Country Risk Limit is set and approved by the RERC & HKERC for each individual country in order to monitor the concentration risk on cross-border exposure. The limit is derived from factors including Tier 1 Capital, Sovereign Ratings, and Business Strategy. Risk Governance and Enterprise Risk Management team is responsible for Country Risk exposure monitoring and reporting (e.g. monitoring of Risk Appetite), and escalation of material exposures where appropriate. The RERC monitors Risk Appetite thresholds which provide an early warning indicator of stress and concentration risk and an escalation process to Board Risk Committee is in place.

Stress Testing

The Group Country Risk team produces stressed Sovereign ratings which are used by the relevant Credit and Traded Risk teams in calculating risk-weighted assets during described extreme but plausible stress scenarios.

(c) Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the bank in financial markets. Under the Enterprise Risk Management Framework, the Traded Risk Type Framework ("TRTF") brings together all risk types exhibiting risk features common to Traded Risk.

These risk types include Market Risk, Counterparty Credit Risk and Issuer Risk. Traded Risk Management ("TRM") is the core risk management function supporting market facing businesses, specifically Financial Markets and Treasury Markets.

Roles and responsibilities

The TRTF, which sets the roles and responsibilities in respect of Traded Risk for the Group, is owned by the Global Head, Traded Risk Management. TRTF is adopted at the regional level and approved by the Regional CRO. The front office, acting as first line of defence, is responsible for the effective management of risks within the scope of its direct organisational responsibilities set by the Board. The TRM function is the second line control function that performs independent challenge, monitoring and oversight of the Traded Risk management practices of the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and authorities delegated by Traded Risk control owners.

Risk Mitigation

The Group controls its trading portfolio and activities within Risk Appetite by assessing the various Traded Risk factors. These are captured and analysed using proprietary and custom-built analytical tools, in addition to risk managers' specialist market and product knowledge.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(c) Traded Risk (continued)*****Risk Mitigation (continued)***

TRM has a framework, policies and standards in place ensuring that appropriate Traded Risk limits are implemented. The Group's Traded Risk exposure is aligned with its appetite for Traded Risk, and assessment of potential losses that might be incurred by the Group as a consequence of extreme but plausible events.

Traded Risk limits are applied as required by the TRTF and related standards. All businesses incurring Traded Risk must do so in compliance with the TRTF. The TRTF requires that Traded Risk limits are defined at a level appropriate to ensure that the Group remains within Traded Risk Appetite. All exposures throughout the Group that the TRM function is responsible for aggregate up to TRM's Group-level reporting. This aggregation approach ensures that the limits structure across the Group is consistent with the Group's Risk Appetite.

The TRTF and Enterprise Stress Testing Policy ensure that adherence to stress-related Risk Appetite metrics is achieved. Stress testing aims at supplementing other risk metrics used within the Group by providing a forward-looking view of positions and an assessment of their resilience to stressed market conditions. Stress testing is performed on all Group businesses with Traded risk exposures, either where the risk is actively traded or where material risk remains. This additional information is used to inform the management of the Traded risks taken within the Group. The outcome of stress tests is discussed across the various business lines and management levels so that existing and potential risks can be reviewed, and related management actions can be decided upon where appropriate.

Policies are reviewed and approved by the Global Head, TRM. The Group will adopt group policies where feasible with ongoing RERC review annually to ensure their ongoing effectiveness and sustainability.

Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Traded Risk. At the executive level, the Group Risk Committee delegates responsibilities to the RERC to act as the primary risk governance body for Traded Risk. RERC further delegates stress testing and model risk to the Stress Testing Committee for stress testing and the Model Risk Committee for model risk. Where Traded Risk limits are set at a country level, committee governance is:

Subsidiary authority for setting Traded Risk Limits, where applicable, is delegated from the local Board to the local risk committee, Country Chief Risk Officer and Traded Risk managers.

Decision-making authorities and delegation

The Group's Risk Appetite Statement, along with the key associated Risk Appetite metrics, is approved by the Board with responsibility for Traded Risk limits, then tiered accordingly.

Subject to the Group's Risk Appetite for Traded Risk, the Group Risk Committee sets Group-level Traded Risk limits, via delegation to the Group Chief Risk Officer. The Group Chief Risk Officer delegates authority for the major business limits and for all other Traded Risk limits to the TRTF Owner (Global Head, TRM) who in turn delegates approval authorities to individual Traded Risk managers.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(c) Traded Risk (continued)*****Decision-making authorities and delegation (continued)***

Authorities are reviewed at least annually to ensure they remain appropriate and to assess the quality of decisions taken by the authorised person. Key risk-taking decisions are made only by certain individuals with the skills, judgement and perspective to ensure that the Group's control standards and risk-return objectives are met. Authority delegators are responsible for monitoring the quality of the risk decisions taken by their delegates and the ongoing suitability of their authorities.

Monitoring

TRM monitors the overall portfolio risk and ensures that it is within specified limits and therefore Risk Appetite. The annual and mid-year limit review processes provide opportunities for the business and TRM to review risk considering performance. Traded Risk exposures are monitored daily against approved limits. Intra-day risk exposures may vary from those reported at the end of the day. Limit excess approval decisions are informed by factors such as an assessment of the returns that will result from an incremental increase to the business risk exposure. Limits and excesses can only be approved by a Traded Risk manager with the appropriate delegated authority. TRM reports and monitors limits applied to stressed exposures. Stress scenario analysis is performed on non-trading and trading books. Stress loss excesses are discussed with the business.

Market Risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Group's exposure to Market Risk arises predominantly from the following sources:

- Trading book: The Group provides clients access to financial markets, facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from related activities is primarily driven by the volume of client activity rather than risk-taking.
- Non-trading book: The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities

The primary categories of Market Risk for the Group are:

- Interest rate risk: arising from changes in yield curves, and implied volatilities on interest rate options;
- Foreign exchange rate risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options.
- Credit spread risk: arising from changes in credit spreads. It represents the risk specific to the issuer or for the industry representing the issuer.

Value at Risk ("VaR")

The Group applies VaR as a measure of the risk of losses arising from future potential adverse movements in market rates, prices and volatilities. VaR is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(c) Traded Risk (continued)****Value at Risk (continued)**

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 percent. VaR is calculated on our exposure as at the close of business.

The Group applies two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in Market Risk factors on the valuation of the current portfolio. This approach is applied for general Market Risk factors and the majority of specific (credit spread) risk VaRs.
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

In both methods, an historical observation period of one year is chosen and applied.

Stress Testing

The VaR measurement is complemented by weekly stress testing of Market Risk exposures to highlight the potential risk that may arise from extreme market events that are deemed rare but plausible. Stress testing is an integral part of the Traded Risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The TRM function reviews stress testing results and, where necessary, enforces reductions in overall Market Risk exposure. The Regional Executive Risk Committee considers the results of stress tests as part of its supervision of Risk Appetite. Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the non-trading and trading books. Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Treasury Markets under the supervision of the ALCO. Treasury Markets deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to non-trading book exposures in the same way as for the trading book, including the fair value securities, loan and receivables and held to maturity securities.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(c) Traded Risk (continued)****Market risk VaR coverage (continued)**Trading and Non-trading (VaR at 97.5%, 1 day)

Value at risk:	2020				2019 [#]			
	Average	High ^{**}	Low ^{**}	Actual [*]	Average	High ^{**}	Low ^{**}	Actual [*]
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Total	174.6	254.6	97.1	236.1	80.9	110.7	57.9	100.4

Trading (VaR at 97.5%, 1 day)

Value at risk:	2020				2019 [#]			
	Average	High ^{**}	Low ^{**}	Actual [*]	Average	High ^{**}	Low ^{**}	Actual [*]
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Interest rate risk	34.2	56.3	19.4	44.7	9.9	17.3	4.7	10.6
Foreign exchange risk	14.0	32.3	6.0	17.0	3.3	10.7	1.1	3.9
Credit spread risk	9.6	18.7	3.1	17.9	2.8	7.0	1.2	3.2
Total [^]	39.7	62.99	22.1	57.5	12.1	18.2	4.6	13.1

Non-trading (VaR at 97.5%, 1 day)

Value at risk:	2020				2019 [#]			
	Average	High ^{**}	Low ^{**}	Actual [*]	Average	High ^{**}	Low ^{**}	Actual [*]
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Interest rate risk ^{^^}	157.2	223.1	87.2	188.2	75.9	100.5	57.2	95.1

* Actual one day VaR at period end date.

^{**} Highest and lowest VaR for each risk factor are independent and usually occur on different days.[^] Total Trading VaR shown in the tables above is not a sum of the component risks due to offsets between them.^{^^} Includes credit spread risk arising from fair value through profit or loss 'FVTPL' and fair value other comprehensive income 'FVOCI' securities, and amortized cost exposures.[#] Comparative amounts for 2019 represent the VaR of the Group in accordance with the organisation structure prior to the acquisition of SCB China and SC NEA Group.

Total trading VaR include Equity risk which is immaterial in exposure.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(c) Traded Risk (continued)*****Market risk changes***

The year of 2020 started off with an outbreak of COVID-19 across the world. Markets became volatile and multiple Central Banks have cut benchmark rates in response to the slowing economy due to various lockdowns implemented by various countries. With this backdrop, the average and actual levels of total VaR (trading and non-trading) in 2020 moved higher to HK\$174.6 million and HK\$236.1 million respectively. The actual level of total VaR (trading and non-trading) in 2019 was HK\$130.8 million on a consolidated basis.

In addition, the increase in the total VaR (both average and actual) was also driven by surplus liquidity available to deploy in high-quality liquid assets 'HQLA' which has impacted the non-trading book VaR to stand at HK\$188.2 million.

The average and actual levels of trading book VaR in 2020 were HK\$39.7 million and HK\$57.5 million respectively. These were higher than those in 2019, mainly driven by interest rate risk due to client demand.

Counterparty credit risk

Counterparty Credit Risk is the potential for loss in the event of the default of a derivative counterparty, after considering the value of eligible collaterals and risk mitigation techniques. The Group's counterparty credit exposures are included in the Credit Risk section.

Credit Risk from traded products derives from the positive mark-to market value of the underlying instruments, and an additional component to cater for potential future market movements. In addition to analysing potential future movements, the Group uses various single factor or multi-risk factor stress test scenarios to identify and manage Counterparty Credit Risk across derivatives and securities financing transactions.

Derivative financial instruments credit risk mitigation

The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions.

In addition, the Group enters into credit support annexes ("CSAs") with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Cash or other eligible collateral includes collateral called under a variation margin process from counterparties if total uncollateralized mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions are in the counterparty's favour and exceed an agreed threshold.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(d) Foreign exchange risk**

Foreign exchange trading exposures are principally derived from customer driven transactions.

Foreign exchange risk in the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency.

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority.

The Group had the following non-structural foreign currency positions which exceeded 10% of the net non-structural position in all foreign currencies:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
US dollars exposure		
Spot assets	636,451	603,529
Spot liabilities	(746,680)	(674,398)
Forward purchases	3,410,137	3,206,554
Forward sales	(3,302,703)	(3,132,583)
Net option position	<u>(588)</u>	<u>(616)</u>
Net (short)/long non-structural position	<u>(3,383)</u>	<u>2,486</u>
	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Chinese Renminbi exposure		
Spot assets	338,883	262,221
Spot liabilities	(321,400)	(255,036)
Forward purchases	1,417,123	1,246,985
Forward sales	(1,431,414)	(1,255,105)
Net option position	<u>255</u>	<u>263</u>
Net long/(short) non-structural position	<u>3,447</u>	<u>(672)</u>
	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
South Korean Won exposure		
Spot assets	531,894	389,765
Spot liabilities	(504,260)	(371,263)
Forward purchases	1,039,627	808,543
Forward sales	(1,063,573)	(826,711)
Net option position	<u>134</u>	<u>165</u>
Net long non-structural position	<u>3,822</u>	<u>499</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(d) Foreign exchange risk (continued)**

The Group had the following structural foreign currency positions which exceeded 10% of the net structural position in all foreign currencies:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Chinese Renminbi	29,375	26,008
US dollars	21,508	22,202
South Korean Won	22,522	21,033
	<u>73,405</u>	<u>69,243</u>

(e) Interest rate risk in the banking book

The Group defines interest rate risk in the banking book (“IRRBB”) as the potential for a reduction in future earnings or economic value due to changes in interest rates. The risk arises from differences in the repricing profile, interest rate basis, and optionality of banking book assets, liabilities and off-balance sheet items. IRRBB represents an economic and commercial risk to the Group and its capital adequacy. The Group monitors IRRBB in line with the HKMA Supervisory Policy Manual on “Interest Rate Risk Management”. As at 31 December 2020, the IRRBB metric remained within the regulatory threshold.

(f) Liquidity and Funding risk

Liquidity and Funding risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

The Group’s Liquidity and Funding Risk framework requires each country to ensure that it operates within predefined liquidity limits and remains in compliance with the liquidity policies and practices, as well as local regulatory requirements.

The Group achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

Since the beginning of the year there were no significant changes in the bank’s liquidity risk policies.

Primary sources of funding

The Group’s funding strategy is largely driven by its policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group’s funding profile is therefore well diversified across different sources, maturities and currencies.

A substantial portion of our assets are funded by customer deposits, aligned with our policy to fund customer assets predominantly using customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

The Group maintains access to wholesale funding markets in all major financial centres in which the Group operates. This seeks to ensure that the Group has market intelligence, maintains stable funding lines and can obtain optimal pricing when performing its interest rate risk management activities.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(f) Liquidity and Funding risk (continued)

Liquidity risk management

The Treasury Risk and Finance Functions are jointly responsible for developing a risk type framework for liquidity risk and for complying with regulatory requirements in the countries in which the Group operates. The Treasury Risk and Finance functions, as the second line of defence, provide independent challenge and oversight of the first line risk management activities relating to liquidity risk.

The Group develops and adopts policies to address material liquidity risks and aims to maintain its risk profile within the Group's Risk Appetite. In order to do this, metrics are set against the respective risk types. Where appropriate, Risk Appetite metrics are cascaded down to countries. The Group maintains a Recovery Plan which is a live document to be used by management in the event of stress in order to restore the Group to a stable and sustainable position. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions capable of being implemented in a stress. A Recovery Plan is also maintained within each major country subsidiary.

At Group and country level, the Group implements various business-as-usual and stress risk measures and monitors these against limits and management action triggers. This ensures that the Group maintains an adequate and well-diversified liquidity buffer as well as a stable funding base, and that it meets its liquidity and funding regulatory requirements. A funding plan is also developed for efficient liquidity projections to ensure the Group is adequately funded in required currencies to meet its obligations and client funding needs.

Governance

At the Board level, the Board Risk Committee oversees the effective management of liquidity risk. At the executive level, the Regional Asset and Liability Committee ensures the effective management of risk throughout the Group in support of the Group's strategy, guides the Group's strategy on balance sheet optimization and ensures that the Group operates within the internally approved Risk Appetite and other internal and external liquidity requirements.

Country oversight under the liquidity framework resides with country Asset and Liability Committees. Countries must ensure that they remain in compliance with group liquidity policies and practices, as well as local regulatory requirements.

Monitoring

On a day-to-day basis, the management of liquidity is performed by Treasury Markets. The Group regularly reports and monitors liquidity risks inherent in its business activities and those that arise from internal and external events. The management of liquidity is monitored by Treasury Risk and Finance with appropriate escalation processes in place.

Internal risk management reports covering the balance sheet and the liquidity position of the Group are presented to Regional Asset and Liability Committee. The reports contain key information on balance sheet trends, exposures against Risk Appetite and supporting risk measures which enable members to make informed decisions around the overall management of the Group's balance sheet. Oversight at a country level is provided by the country Asset and Liability Committee, with a focus on the local liquidity risks, local prudential requirements and risks that arise from local internal and external events.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(f) Liquidity and Funding risk (continued)

Liquidity and Funding risk metrics

The Group monitors key liquidity metrics regularly, both on a country basis and in aggregate across the Group.

The following Liquidity and Funding Board Risk Appetite metrics define the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy: Liquidity Coverage Ratio (LCR), liquidity stress survival horizons, external wholesale borrowing, and advances-to-deposits ratio.

Liquidity Coverage Ratio (“LCR”)

The LCR is a regulatory requirement set to ensure that the Group has sufficient unencumbered high-quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

The Group monitors and reports its liquidity position in line with the Banking (Liquidity) Rules issued by the HKMA and has maintained its liquidity position above the prudential requirement.

Stress Coverage

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all countries and currencies, such that it can withstand a severe but plausible liquidity stress.

The Group’s approach to managing liquidity and funding risk is reflected in the following Board-level Risk Appetite Statement:

“The Group should hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support.”

The Group’s internal liquidity stress testing framework covers the following stress scenarios:

Standard Chartered-specific – This scenario captures the liquidity impact from an idiosyncratic event affecting Standard Chartered only i.e. the rest of the market is assumed to operate normally.

Market-Wide – This scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally.

Combined – This scenario assumes both Standard Chartered-specific and Market-Wide events affecting the Group simultaneously and hence the most severe scenario.

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off-balance sheet funding risk, cross currency funding risk, intraday risk, franchise risk and risks associated with a deterioration of the Group’s credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2020 i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2020 showed the Group maintained liquidity resources to survive greater than 60 days, as per the Group’s Board Risk Appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

The Group’s credit ratings as at 31 December 2020 were A+ with stable outlook (S&P) and A1 with stable outlook (Moody’s). A downgrade in the Group’s long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. The impact of a two-notch long term ratings downgrade has a minimal impact on the Group’s derivatives collateral requirements.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(f) Liquidity and Funding risk (continued)****External wholesale borrowing**

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Limits are applied to all operating subsidiaries in the Group and as at the reporting date the Group remained within Board Risk Appetite.

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. An advances-to-deposits ratio of below 100 percent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers.

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i> <i>(restated)</i>
Advances to customers	1,091,656	1,007,035
Deposits from customers	1,736,729	1,530,112
Advances-to-deposits ratio	<u>62.9%</u>	<u>65.8%</u>

Net stable funding ratio ("NSFR")

The Group monitors and reports the NSFR in line with the Banking (Liquidity) Rules issued by the HKMA.

The NSFR is a balance sheet metric which requires institutions to maintain a stable funding profile in relation to the characteristics of their assets and off-balance sheet activities over a one-year horizon. It is the ratio between the amount of available stable funding ("ASF") and the amount of required stable funding ("RSF"). ASF factors are applied to the balance sheet liabilities and capital, based on their perceived stability and the amount of stable funding they provide. Likewise, RSF factors are applied to assets and off-balance sheet exposures according to the amount of stable funding they require. At the last reporting date, the Group NSFR remained above 100 percent.

Maturity profiles**(i) Contractual maturity of assets and liabilities**

The following table presents assets and liabilities by maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

Within the tables below, cash and balances with central banks, interbank placements, and investment securities that are fair value through other comprehensive income are used by the Group principally for liquidity management purposes.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(f) Liquidity and Funding risk (continued)**

(i) Contractual maturity of assets and liabilities (continued)

	2020							Total HK\$'M
	Repayable on demand HK\$'M	Due within 1 month HK\$'M	Due between 1 month to 3 months HK\$'M	Due between 3 months to 1 year HK\$'M	Due between 1 year to 5 years HK\$'M	Due after 5 years HK\$'M	Undated HK\$'M	
Assets								
Cash and balances at central banks	66,640	-	-	-	-	-	-	66,640
Advances to banks and other financial institutions	23,063	50,138	27,512	23,878	13,306	-	-	137,897
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	-	56,561	56,561
Derivative financial instruments	-	12,507	17,105	26,420	10,739	3,744	-	70,515
Investment securities	-	52,994	84,974	155,728	265,340	64,236	11,714	634,986
Advances to customers	14,926	170,211	104,216	164,310	212,531	477,888	-	1,144,082
Amounts due from fellow subsidiaries	4,674	69,842	29,731	42,595	49,922	9,863	48	206,675
Others	15,563	31,901	18,339	2,661	2,090	37	68,842	139,433
Total Assets	124,866	387,593	281,877	415,592	553,928	555,768	137,165	2,456,789
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	-	-	-	-	56,561	56,561
Deposits and balances of banks and other financial institutions	39,220	15,572	2,316	5,715	3,047	-	-	65,870
Deposits from customers	1,308,644	162,049	99,470	164,013	13,593	13,333	-	1,761,102
Derivative financial instruments	-	12,964	17,273	36,579	13,815	3,301	-	83,932
Debt securities in issue	27	500	9,566	11,007	24,465	5,258	-	50,823
Amounts due to immediate holding company	-	1,042	-	-	24,337	16,371	-	41,750
Amounts due to fellow subsidiaries	10,680	32,545	26,481	8,213	14,666	10,097	66	102,748
Others	20,725	30,316	24,223	14,642	3,121	711	20,266	114,004
of which: Lease liabilities	-	-	1	106	2,739	767	-	3,613
Total Liabilities	1,379,296	254,988	179,329	240,169	97,044	49,071	76,893	2,276,790

Advances to banks and other financial institution, investment securities, advances to customers, deposits and balances of banks and other financial institutions, deposit from customers and debt securities in issue included balances recognized at fair value through profit or loss.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(f) Liquidity and Funding risk (continued)****(i) Contractual maturity of assets and liabilities (continued)**

	2019							Total HKD'm
	Repayable on demand HKD'm	Due within 1 month HKD'm	Due between 1 month to 3 months HKD'm	Due between 3 months to 1 year HKD'm	Due between 1 year to 5 years HKD'm	Due after 5 years HKD'm	Undated HKD'm	
Assets								
Cash and balances at central banks	68,549	-	-	-	-	-	-	68,549
Advances to banks and other financial institutions	14,451	52,493	28,261	30,546	3,507	-	-	129,258
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	-	53,821	53,821
Derivative financial instruments	-	4,778	5,882	8,474	6,125	2,709	-	27,968
Investment securities	-	60,305	57,431	138,427	210,483	25,867	1,934	494,447
Advances to customers	30,684	134,654	94,211	142,480	198,207	435,909	-	1,036,145
Amount due from fellow subsidiaries	4,157	78,846	14,844	29,494	26,667	10,088	36	164,132
Others	20,446	35,389	20,579	2,172	2,344	36	63,362	144,328
Total Assets	138,287	366,465	221,208	351,593	447,333	474,609	119,153	2,118,648
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	-	-	-	-	53,821	53,821
Deposits and balances of banks and other financial institutions	20,831	12,978	199	4,812	4,700	45	-	43,565
Deposits from customers	1,046,157	168,113	140,638	162,360	12,713	24,670	-	1,554,651
Derivative financial instruments	-	4,696	6,488	9,848	6,605	2,376	-	30,013
Debt securities in issue	12	4,564	2,645	7,803	16,566	16,589	-	48,179
Amounts due to immediate holding company	-	127	-	-	18,809	11,719	-	30,655
Amounts due to fellow subsidiaries	13,133	9,762	15,058	14,155	9,705	10,701	4,448	76,962
Subordinated liabilities	-	-	-	5,876	-	-	-	5,876
Others	16,209	41,737	18,776	9,624	5,185	3,831	13,560	108,922
of which: Lease liabilities	-	-	-	86	2,086	2,010	-	4,182
Total Liabilities	1,096,342	241,977	183,804	214,478	74,283	69,931	71,829	1,952,644

Advances to banks and other financial institution, investment securities, advances to customers, deposits and balances of banks and other financial institutions, deposit from customers and debt securities in issue included balances carried at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(f) Liquidity and Funding risk (continued)****(ii) Behavioural maturity of financial assets and liabilities**

The cash flows presented in previous section reflect the cash flows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

(iii) Maturity of financial liabilities on an undiscounted basis

The following tables analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the tables below will not agree to the balances reported in the consolidated balance sheet as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'Undated' maturity band are undated financial liabilities, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(f) Liquidity and Funding risk (continued)**

(iii) Maturity of financial liabilities on an undiscounted basis (continued)

	2020							
	Repayable on demand	Due within 1 months	Due	Due	Due	Due after 5 years	Undated	Total
			between 1 month to 3 months	between 3 months to 1 year	between 1 year to 5 years			
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Deposits and balances of banks and other financial institutions	39,254	15,604	2,368	6,108	3,083	–	–	66,417
Deposits from customers	1,309,031	162,515	100,255	165,877	14,121	15,548	–	1,767,347
Derivative financial instruments ¹	–	12,964	17,273	36,579	13,815	3,301	–	83,932
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	–	–
Debt securities in issue	27	649	9,719	12,097	28,369	9,420	–	60,281
Amounts due to immediate holding company	–	1,121	159	714	27,079	18,204	–	47,277
Amounts due to fellow subsidiaries	10,680	32,565	26,518	8,371	15,351	10,464	66	104,015
Others	20,725	30,316	24,223	14,642	3,121	711	76,827	170,565
Total Liabilities	1,379,717	255,734	180,515	244,388	104,939	57,648	76,893	2,299,834

	2019							
	Repayable on demand	Due within 1 month	Due	Due	Due	Due after 5 years	Undated	Total
			between 1 month to 3 months	between 3 months to 1 year	between 1 year to 5 years			
HKD'm	HKD'm	HKD'm	HKD'm	HKD'm	HKD'm	HKD'm	HKD'm	HKD'm
Deposits and balances of banks and other financial institutions	20,875	13,022	306	5,448	4,912	45	–	44,608
Deposits from customers	1,046,656	169,061	141,930	165,965	13,488	28,294	–	1,565,394
Derivative financial instruments ¹	11	10,579	12,108	17,331	14,275	8,778	–	63,082
Debt securities in issue	12	4,593	2,702	8,081	17,623	20,537	–	53,548
Amounts due to immediate holding company	–	–	–	–	18,809	11,719	–	30,528
Amounts due to fellow subsidiaries	13,134	4,079	9,438	6,664	2,035	4,299	4,448	44,097
Subordinated liabilities	–	–	–	6,220	–	–	–	6,220
Others	16,209	41,662	18,793	9,710	6,495	5,840	67,381	166,090
Total Liabilities	1,096,897	242,996	185,277	219,419	77,637	79,512	71,829	1,973,567

¹ Derivatives are on a discounted basis.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(g) Operational risk**

The Group defines Operational risk as the potential for loss resulting from inadequate or failed internal processes, systems, human error, or from the impact of external events. The potential for operational risk events to occur is a constant challenge as operational risk arises from all activities carried out within the Group. To address this the Group maps risks across the Group at a process level with controls installed to mitigate these risks. The Group benchmarks practices against peers and regulatory requirements.

The Group has continued to provide a stable level of service to clients during the period of COVID-19. The Group adapted swiftly to changes in operations brought by the pandemic. As a result of the changes in internal and external operating environment due to COVID-19, the following risk areas are heightened – Fraud, Information & Cyber Security, Privacy, Conduct and Resilience.

Operational Risk Governance

The RERC and HKERC provide oversight of operational risk management across the Group. They are supported by country level forums and sub-committees including the Business / Function Risk Forums, Country Fraud Risk Management Committee (“CFRMC”), Third Party Risk Management Committee (“TPRMC”) and regional level sub-committee such as Data Governance Committee (“DGC”), to oversee operational risks arising from businesses and functions, internal and external fraud, third party risk management and data quality management, respectively.

Risk Appetite approach

Operational risk is managed to achieve the Risk Appetite Statement approved by the Board. The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any losses related to conduct of business matters, do not cause material damage to the Group’s franchise.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***34 Risk management (continued)****(g) Operational risk (continued)****Risk classification**

Operational Risk sub-types are the different ways that the Group may be operationally exposed to loss. The Group uses operational risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, wherever they may arise. Operational risk sub-types are listed in the table:

OPERATIONAL RISK SUB-TYPES

Execution Capability	Transaction processing	Potential for loss due to failure in the design or execution of client facing transactions.
	Product management	Potential for loss due to the failure to design and / or meet product management standards and product-related regulatory requirements.
Operational Resilience	Client service resilience	Potential for loss or adverse impact due to failures to maintain or manage processes supporting client service.
	System availability	Potential for loss or adverse impact due to failures to maintain systems (including the design and setup of software and architecture).
	Data quality	Potential for loss due to the failure to define and/or meet data quality standards including resilience requirements.
	Vendor service	Potential for loss or adverse impact due to failures to maintain vendor service (including resilience requirements).
	Change management	Potential for loss or adverse impact due to failures to manage project related change.
	People management	Potential for loss due to the failure to meet standards for people management including relevant regulations (e.g. employment, remuneration and benefits).
Governance	Safety and security	Potential for loss or damage due to failure to create a safe, secure, and healthy environment for staff and clients. This risk considers both the protection of property and physical assets, health and safety standards, and resilience requirements.
	Corporate governance and authorities	Potential for loss due to non-compliance with relevant laws, regulations, ordinances or market guidance (which a Group entity would customarily comply with) relating to an entity's board, directors, members and shareholders.
	Exchange listing rules	Risk of non-compliance with stock exchange rules of a listed Group entity. Any Listing Rules risks relating to remuneration, financial reporting, tax and capital are covered under other sub-types.
Reporting and Obligations	Enterprise Risk governance	Potential for loss or adverse impact due to the failure or ineffective enterprise risk management framework, risk governance arrangements and enterprise wide activities impacting multiple principal risks (e.g. stress testing and risk appetite) arising from internal or external stakeholders.
	Financial books and records	Potential for loss or adverse impact due to failure to comply with laws and regulations for financial books and records.
	Financial Regulatory Reporting	Potential for loss or adverse impact due to failure to comply with applicable financial regulatory reporting laws and regulations.
	Tax obligations	Potential for loss or adverse impact due to failure to comply with laws and regulations for tax.
Legal enforceability		The potential for loss due to difficulty in enforcing the Group's contractual rights.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(h) Reputational risk

The Group defines Reputational Risk as the potential for loss of damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation because of stakeholders taking a negative view of the organisation or its actions or inactions – leading stakeholders to change their behaviour. The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.

Mitigation

The Group's Reputational Risk Type framework and policy sets out the principal sources of Reputational Risk and the responsibilities and procedures for identifying, assessing and escalating primary and secondary reputational risks. The policy also defines the control and oversight standards to effectively manage Reputational Risk. The Group takes a structured approach to the assessment of risks associated with how individual client, transaction, product and strategic coverage decisions may affect perceptions of the organisation and its activities. Wherever a potential for stakeholder concerns is identified, issues are subject to prior approval by a management authority commensurate with the materiality of matters being considered. Such authorities may accept or decline the risk or impose conditions upon proposals, to protect the Group's reputation. Secondary Reputational Risk mitigation derives from the effective management of other Principal Risk Types.

Governance Committee Oversight

The Board retains the overall oversight responsibility for Reputational Risk. Oversight from an operational perspective falls under the remit of the Regional and Country ERCs and the Board Risk Committee.

Decision making authorities and delegation

The RERC provides Group-wide oversight on Reputational Risk, approves policy and monitors material risks. The Reputational Risk policy specifies appropriate parties to approve or decline Reputational Risk aspects of any business transaction, client, product, market coverage within the boundaries of the Group's Risk Appetite, and any limits and policies set by authorised bodies of the Group.

Monitoring

Reputational Risk policies and standards are applicable to the Group. However, HKMA may impose additional guidelines and requirements on how banks manage Reputational Risk. In such cases, these are complied with in addition to the policies and standards. Exposure to Reputational Risk is monitored through:

- A requirement that process owners establish triggers to prompt consideration of Reputational Risk and escalation where necessary
- The tracking of risk acceptance decisions
- The tracking of thematic trends in secondary risk arising from other Principal Risk Types
- The analysis of prevailing stakeholder concerns

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(h) Reputational risk (continued)****Stress testing**

Reputational risk is incorporated into the Group's stress testing scenarios. For example, the Group may consider what impact a hypothetical event leading to loss of confidence among liquidity providers in a particular market might have, or what the implications might be for supporting part of the organisation in order to protect the brand.

(i) Compliance risk

The Group defines Compliance Risk as "Potential for penalties or loss to the Bank or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws, or regulations".

The Conduct, Financial Crime and Compliance ("CFCC") function develops and deploys relevant policies and procedures and sets out standards and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. Through a combination of control monitoring and attestation, the CFCC function ensures that all policies are operating as expected to mitigate the risk that they cover.

Monitoring of controls designed to mitigate the risk of regulatory non-compliance in processes is carried out in line with the ERMF. Determination of whether the Group remains within the Risk Appetite is through monitoring of defined and approved metrics including the number of regulatory fines or the cumulative value of penalties suffered by the Group.

(j) Conduct risk

The Group defines Conduct Risk as "Risk of detriment to the Group's clients, investors, shareholders, market integrity, competition and counter-parties, or risk of detriment from the inappropriate supply of financial services, including instances of wilful or negligent misconduct".

Conduct risk management and abiding by the Group Code of Conduct are the responsibilities of all employees in the Group. The First Line businesses and functions review their processes and identify the conduct related outcomes that are relevant and ensure there are controls in place to mitigate these conduct risks. The CFCC function as Second Line for Conduct Risk has oversight and challenge responsibilities to ensure the adequacy of the Conduct risk management and that the Group remains within risk appetite.

The overall Conduct approach is stated in the Group's Conduct Risk Type Framework and the Code of Conduct. It is backed by a number of more detailed policies and procedures, and any employees who identify an issue with the Group's conduct are encouraged to speak up using processes and safeguards documented in the Speaking Up Policy. The Policy sets out the requirements to ensure a consistent approach to the identification, measurement, management, monitoring and reporting of conduct related risk.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(k) Information and cyber security risk**

The Bank defines Information and cyber security risk ('ICS') as "the risk to the Group's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems". Its risk management aims to avoid risk and uncertainty for its critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Bank.

The Group Chief Operating Officer ('COO') has the overall first line of defence responsibility for ICS Risk and holds full accountability for the end-to-end ICS strategy in the Bank, which is defined and supported by the Group Chief Information Security Officer ('CISO') and its business and client-aligned ICS team, including the designated Head of ICS for the region. In the second line of defence, the Group Chief Information Security Risk Officer ('CISRO') continues to have the overall responsibility for governance, oversight and challenge of ICS Risk and in providing insight to senior management and governance committees on ICS risk management. CISRO's regional responsibility is delegated to the Regional Information Security Risk Officer ('ISRO').

The ICS Risk Type Framework ('RTF') emphasises business ownership and individual accountability for managing ICS Risk. It defines the first line roles of Information Asset Owners, Information System Owners and Information Custodians, as named individuals within each business, and the accountability for classifying and managing risks to the information assets and systems. The Regional Head of ICS serves as a first line point of contact to ensure controls are embedded effectively and consistently across the Group.

ICS Risk is managed through a structured ICS policy framework comprising a risk assessment methodology and supporting policies and standards, which are aligned to industry best practice models. The CISRO function monitors compliance to the ICS policy framework through an assessment of each key control domain as defined by the ICS RTF through the ICS Risk profile report. Within the ICS Risk profile, appropriate mitigating activity for each key control domain is identified, undertaken and reported against by the business.

ICS risk management oversight and governance within the Group falls under the responsibility of the RERC. This includes oversight of ICS RTF implementation, monitoring of Risk Appetite and monitoring of ICS Risk Management activities across the first line. Escalation of ICS risks which fall outside the defined appetite for the Group are reported into and overseen by the RERC to ensure effective mitigation and appropriate risk management.

(l) Financial Crime**Financial crime risk**

The SCBHK Group defines Financial Crime risk as the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering, Anti-Bribery and Corruption, and Fraud.

Financial Crime risk within the SCBHK Group is governed by the countries' Financial Crime Risk Committee ("FCRC") which is appointed by and reports into the respective in-country ERC. Material risks of SCBHK Group are escalated to the RERC. Both the RERC and FCRCs are concerned with ensuring the effective management of Financial Crime Compliance risk in supporting of the SCBHK Group's strategy and in line with its Risk Appetite, as determined under the ERMF.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(l) Financial Crime (continued)****Financial crime risk (continued)**

Metrics and tolerances covering the key operational processes in support of Financial Crime risk management have been documented. Metrics are subject to periodic review and performance against them is regularly reported to the countries' FCRC. Risks for breaching SCBHK Group tolerances are escalated to the RERC.

(m) Capital management

The HKMA sets capital requirements for the Bank and certain subsidiaries specified by the HKMA. In implementing current capital requirements, the HKMA requires the Group to maintain prescribed ratios of capital to risk-weighted assets and a leverage ratio of tier 1 capital to total on- and off-balance sheet exposures. The leverage ratio is a complementary volume-based measure to the risk-based capital requirements. The Group calculates its capital adequacy ratios and leverage ratio on both a consolidated and solo-consolidated basis in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Non-banking subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The HKMA sets loss absorbing capacity ("LAC") requirements for the Bank. In implementing LAC requirements, the HKMA requires the Group to maintain prescribed ratios of LAC expressed as a percentage of risk-weighted assets, LAC expressed as a percentage of exposure measure, and LAC debt expressed as a percentage of LAC regulatory minimum. The Group calculates its LAC ratios in accordance with the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules").

Hong Kong LAC Rules came into operation on 14 December 2018. Following classification by the HKMA (as resolution authority), in-scope entities are required under these rules to issue LAC instruments that can be written down or converted in the event of failure, and maintain minimum LAC resources.

The Bank was notified by HKMA of its classification as a material subsidiary under the LAC Rules with effect from 1 April 2019, with Standard Chartered PLC ("SC PLC") as the non-HK resolution entity. Following this classification, the Bank has met its minimum LAC requirements since 1 July 2019.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by Treasury, RALCO and Country ALCO and is reviewed regularly by the Board. With oversight by RALCO, each subsidiary manages their allocated capital to support their planned business growth and meet their local regulatory requirements.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)**(m) Capital management (continued)**

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital on both the consolidated and solo-consolidated basis during the year.

The Group has complied with all externally imposed capital and LAC requirements during 2020.

The Group uses the IRB approach for both the measurement of credit risk weighted assets and the management of credit risk for the majority of its portfolios. The Group also uses the standardised (credit risk) approach for certain insignificant portfolios exempted from IRB. The Group adopts the securitisation external ratings-based approach to calculate its credit risk for securitisation exposures.

For market risk, the Group adopts the standardised (market risk) approach for the majority of its exposures and uses a stochastic asset-liability model approach for two guaranteed retirement funds. In addition, the Group adopts the standardised (operational risk) approach for operational risk.

The Banking (Capital) Rules issued by the HKMA require all authorised institutions in Hong Kong to meet three levels of minimum capital ratios, namely common equity tier 1, tier 1 and total capital ratios, and minimum leverage ratio.

The Group's consolidated capital as at 31 December 2020 consists of tier 1 capital after deductions of HK\$152,645 million (2019: HK\$138,097 million) and tier 2 capital after deductions of HK\$12,238 million (2019: HK\$15,951 million). Tier 2 capital includes subordinated debt and impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital.

(n) Model Risk

The Group defines Model Risk as the potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models due to errors in the development, implementation or use of such models.

Roles and responsibilities

The Regional and Hong Kong Chief Risk Officers are the Risk Framework Owners for Model Risk under the Group's Enterprise Risk Management Framework. Responsibility for the oversight and implementation of the Model Risk Type Framework is delegated to the Regional Head of Model Risk Management, Hong Kong and Greater China Northern Asia ("GCNA").

The Model Risk Type Framework sets out clear accountability and roles for Model Risk management through its three lines of defence. First line ownership of Model Risk resides with Model Sponsors, who are the business or function heads and who assign a Model Owner for each model. Model Owners, also part of the first line, represent model users and are responsible for end-to-end model development, ensuring model performance through regular model monitoring and communicating model limitations, assumptions and risks to model-related stakeholders. Model Owners also coordinate the submission of models for validation and approval and ensure appropriate model implementation and use. Second line oversight is provided by Model Risk Management, which also includes Group Model Validation.

Group Model Validation independently review and grade models, assessing whether they are in line with design objectives, expected business uses and compliance and regulatory requirements, and highlight identified model risks. Model Risk Management team provides oversight of Model Risk, performing regular identification of risks arising from model use and providing risk profile reporting to senior management.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(n) Model Risk (continued)

Mitigation

The Model Risk policy and its subordinated standards define requirements for model development and validation activities, including regular model performance monitoring. Any model issues and/or deficiencies identified through the validation process are to be mitigated through the application of model overlays and/or a model redevelopment plan. Any mitigation method chosen undergoes robust review, challenge and approval. Operational controls govern all Model Risk-related processes, with regular risk assessments performed to assess appropriateness and effectiveness of those controls, with remediation plans implemented where necessary.

Governance committee oversight

At the Board level, the Board Risk Committee exercises oversight of Model Risk within the Group. At the executive level, the Regional Executive Risk Committee has appointed the Model Assessment Forum to ensure effective measurement and management of Model Risk, while retaining authority to approve models for use across the Group. In parallel, business and function-level risk committees, where applicable, provide governance oversight of the models used in their respective processes.

Decision-making authorities and delegation

The Model Risk Type Framework (“RTF”) is the formal mechanism through which the delegation of Model Risk authorities is made. The Model Risk Type Framework is implemented in the Group through a “Country Addendum” to the Framework that further details HKMA regulatory requirements to be met in addition to the ones required by the Framework.

The Global Head, Enterprise Risk Management delegates authorities to designated individuals or Policy Owners through the RTF. The second line ownership for Model Risk at country level is delegated to Country and Regional CROs. Day-to-day oversight and implementation are further delegated to the Regional Head of Model Risk Management, Hong Kong and GCNA.

The Regional Executive Risk Committee is responsible for approving models for use, after subject models undergo assessment of their risks through the Model Assessment Forum.

Monitoring

The Group monitors Model Risk via a set of Risk Appetite metrics that are approved by the Board. Adherence to Model Risk appetite and any threshold breaches are reported regularly to the Board Risk Committee and to the Regional Executive Risk Committee.

Models undergo regular monitoring based on their level of perceived model risk, with monitoring results and breaches presented to Model Risk Management and country and regional Model Sponsors and senior executives, by way of the Model Assessment Forum and the Regional Executive Risk Committee.

Model Risk Management produces reports covering the model landscape, which include performance metrics, identified issues and remediation plans. These are presented for discussion at the Model Assessment Forum and the Regional Executive Risk Committee on a regular basis.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Risk management (continued)

(n) Model Risk (continued)

Stress testing

Models play an integral role in the Group's stress testing and are rigorously validated to ensure they are fit-for-purpose for use under stressed market conditions. Compliance with Model Risk management requirements and regulatory guidelines are also assessed as part of each stress test, with any identified gaps mitigated through model overlays and defined remediation plans.

35 Financial instruments

(a) Valuation of financial instruments carried at fair value

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation models, an assessment is made against external market data and consensus services. Financial instruments held at fair value in the consolidated statement of financial position have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

Valuation methodologies

The valuation hierarchy is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable ¹	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see note 35 (a)(i))

¹ These included valuation models such as discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. These models incorporate assumptions and inputs that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December:

	2020			
	Level 1 HK\$'M	Level 2 HK\$'M	Level 3 HK\$'M	Total HK\$'M
Financial assets at fair value through profit or loss:				
– Trading assets	61,671	139,842	479	201,992
– Non-trading financial assets mandatorily at fair value through profit or loss	55	38,846	2,361	41,262
– Financial assets designed at fair value through profit or loss	–	1,985	–	1,985
Investment securities at fair value through other comprehensive income	252,514	228,680	978	482,172
Amounts due from fellow subsidiaries				
– Positive fair values of trading and hedging derivatives	44	56,099	–	56,143
– Debt securities	–	5,171	–	5,171
Total assets measured at fair value	<u>314,284</u>	<u>470,623</u>	<u>3,818</u>	<u>788,725</u>
Financial liabilities at fair value through profit or loss:				
– Trading liabilities	18,866	85,069	27	103,962
– Financial liabilities designated at fair value through profit or loss	–	42,668	1,596	44,264
Amounts due to immediate holding company				
– Negative fair values of hedging derivatives	–	973	–	973
Amounts due to fellow subsidiaries				
– Negative fair values of trading and hedging derivatives	15	63,935	–	63,950
Total liabilities measured at fair value	<u>18,881</u>	<u>192,645</u>	<u>1,623</u>	<u>213,149</u>

There were no significant transfers between level 1 and level 2 instruments during 2020.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

	2019			Total HK\$'M
	Level 1 HK\$'M	Level 2 HK\$'M	Level 3 HK\$'M	
Financial assets at fair value through profit or loss:				
– Trading assets	32,042	71,518	191	103,751
– Non-trading financial assets mandatorily at fair value through profit or loss	64	18,537	2,833	21,434
– Financial assets designed at fair value through profit or loss	–	2,162	–	2,162
Investment securities at fair value through other comprehensive income	225,873	181,459	435	407,767
Amounts due from fellow subsidiaries				
– Positive fair values of trading and hedging derivatives	64	29,668	–	29,732
– Debt securities	–	13	–	13
Other assets				
– Positive fair values of hedging derivatives	–	48	–	48
Total assets measured at fair value	<u>258,043</u>	<u>303,405</u>	<u>3,459</u>	<u>564,907</u>
Financial liabilities at fair value through profit or loss:				
– Trading liabilities	16,674	32,691	73	49,438
– Financial liabilities designated at fair value through profit or loss	–	46,265	846	47,111
Amounts due to immediate holding company				
– Negative fair values of hedging derivatives	–	127	–	127
Amounts due to fellow subsidiaries				
– Negative fair values of trading and hedging derivatives	98	32,766	3	32,867
Other liabilities				
– Negative fair values of hedging derivatives	–	75	–	75
Total liabilities measured at fair value	<u>16,772</u>	<u>111,924</u>	<u>922</u>	<u>129,618</u>

There were no significant transfers between level 1 and level 2 instruments during 2019.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs**

The movements during the year for level 3 financial assets and liabilities are as follows:

Financial assets

	<i>2020</i>		
	<i>Financial assets at fair value through profit or loss</i>	<i>Financial assets at fair value through other comprehensive income</i>	<i>Total level 3 assets</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
At 1 January 2020	3,024	435	3,459
Total losses recognised in the income statement			
– Net trading income	(193)	–	(193)
Total losses recognised in other comprehensive income			
– Net change in fair value	–	(57)	(57)
Purchases	1,815	600	2,415
Sales	(989)	–	(989)
Settlements	(1,168)	–	(1,168)
Transferred into level 3 ¹	829	–	829
Transferred out of level 3 ¹	(478)	–	(478)
	<u>2,840</u>	<u>978</u>	<u>3,818</u>
At 31 December 2020			
Total gains recognised in the income statement relating to assets held at 31 December 2020			
– Net trading income	<u>59</u>	<u>–</u>	<u>59</u>

¹ Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) during the year.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)***Financial liabilities*

	2020		
	<i>Financial liabilities at fair value through profit or loss</i> HK\$'M	<i>Amounts due to fellow subsidiaries</i> HK\$'M	<i>Total level 3 liabilities</i> HK\$'M
At 1 January 2020	919	3	922
Total losses recognised in the income statement			
– Net trading income	12	–	12
Additions	2,171	–	2,171
Settlements	(1,479)	(3)	(1,482)
	<u>1,623</u>	<u>–</u>	<u>1,623</u>
At 31 December 2020	<u>1,623</u>	<u>–</u>	<u>1,623</u>
Total losses recognised in the income statement relating to liabilities held at 31 December 2020			
– Net trading income	<u>13</u>	<u>–</u>	<u>13</u>

Financial assets

	2019		
	<i>Financial assets at fair value through profit or loss</i> HK\$'M	<i>Financial assets at fair value through other comprehensive income</i> HK\$'M	<i>Total level 3 assets</i> HK\$'M
At 1 January 2019	4,725	494	5,219
Total gains recognised in the income statement			
– Net trading income	284	–	284
Total losses recognised in other comprehensive income			
– Net change in fair value	–	(59)	(59)
Purchases	855	–	855
Sales	(1,401)	–	(1,401)
Settlements	(1,613)	–	(1,613)
Transferred into level 3 ¹	187	–	187
Transferred out of level 3 ¹	(13)	–	(13)
	<u>3,024</u>	<u>435</u>	<u>3,459</u>
At 31 December 2019	<u>3,024</u>	<u>435</u>	<u>3,459</u>
Total gains recognised in the income statement relating to assets held at 31 December 2019			
– Net trading income	<u>26</u>	<u>–</u>	<u>26</u>

¹ Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) during the year.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)***Financial liabilities*

	2019		
	<i>Financial liabilities at fair value through profit or loss HK\$'M</i>	<i>Amounts due to fellow subsidiaries HK\$'M</i>	<i>Total level 3 liabilities HK\$'M</i>
At 1 January 2019	921	–	921
Total gains recognised in the income statement			
– Net trading income	(16)	–	(16)
Additions	885	–	885
Settlements	(871)	–	(871)
Transferred into level 3 ¹	–	3	3
	<u>919</u>	<u>3</u>	<u>922</u>
At 31 December 2019			
Total gains recognised in the income statement relating to liabilities held at 31 December 2019			
– Net trading income	<u>(16)</u>	<u>–</u>	<u>(16)</u>

¹ Transfers into level 3 during the year relate to financial instruments where the valuation parameters became unobservable during the year.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

The following table presents the key valuation techniques used to measure the fair value of level 3 financial instruments which are held at fair value, the significant unobservable inputs and the range of values for those inputs and the weighted average of those inputs.

<u>Type of instruments</u>	<u>Principal valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range¹</u>	<u>Weighted average²</u>
Debt securities	Discounted cash flows	Price/Yield	4.70% to 6.20% (2019: 3.80%)	5.10% (2019: 3.80%)
		Recovery rates	55.0% (2019: NA)	55.0% (2019: NA)
Advances to customers	Discounted cash flows	Recovery rates	89.40% to 100% (2019: 88.50% to 100.0%)	94.40% (2019: 95.90%)
		Price/Yield	1.80% to 6.20% (2019: 0.50% to 0.60%)	3.60% (2019: 0.50%)
Equity shares	Discounted cash flows	Discount rates	8.30% to 11.50% (2019: 8.40% to 16.20%)	10.50% (2019: 9.60%)
Debt securities issued	Discounted cash flows	Credit spreads	0.50% to 11.50% (2019: 1.40%)	3.10% (2019: 1.40%)
Structured bank deposits	Discounted cash flows	Credit spreads	1.0% to 1.40% (2019: 1.0% to 1.80%)	1.10% (2019: 1.40%)
Structured customer deposits	Discounted cash flows	Credit spreads	1.0% (2019: NA)	1.0% (2019: NA)
		Recovery rates	55.0% (2019: NA)	55.0% (2019: NA)
Derivatives	Discounted cash flows	Credit spreads	NA (2019: 7.90%)	NA (2019: 7.90%)
		Price/Yield	0.90% (2019: NA)	0.90% (2019: NA)
	Internal Pricing Model	Equity-Equity Correlation	20.0% to 90.0% (2019: 1.0% to 90.0%)	49.0% (2019: 58.0%)
		Equity-Foreign Exchange Correlation	-70.0% to 80.0% (2019: -80.0% to 70.0%)	-59.0% (2019: -29.0%)

¹ The ranges of values shown represent the highest and lowest used in the valuation of the level 3 financial instruments as at 31 December 2020 and 31 December 2019. The ranges of values used are reflective of the underlying characteristics of these level 3 financial instruments based on the market conditions at the reporting date. However, these ranges of values may not represent the uncertainty in fair value measurements of these level 3 financial instruments.

² Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

35 Financial instruments (continued)**(a) Valuation of financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs (continued)**

The following section describes the significant unobservable inputs identified in the above valuation technique table.

Yield

Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

Recovery rates

Recovery rates are the expectation of the rate of recovery resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan.

Credit spreads

Credit spreads represent the additional yield that a market participant would demand for taking exposures to the credit risk of an instrument. An increase in credit spread, in isolation, would result in a decrease in fair value measurement.

Discount rates

Discount rates is applied to discount future dividend in the discounted cash flow model. An increase in the discount rate, in isolation, would result in decrease in a fair value measurement.

Equity-Equity correlation and Equity-Foreign Exchange correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. An equity-equity correlation is the correlation between two equity instruments while an equity-foreign exchange correlation refers to the correlation between equity instrument and foreign exchange instrument.

(ii) Sensitivities in respect of the fair values of level 3 assets and liabilities

Where the fair values of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 percent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of HKFRS 7/IFRS 7, *Financial Instruments: Disclosures*. The percentage shift is determined by statistical analyses performed on a set of reference prices, which include certain equity indices, credit indices and volatility indices, based on the composition of the level 3 financial instruments. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

(ii) Sensitivities in respect of the fair values of level 3 assets and liabilities (continued)

	2020					
	<i>Held at fair value through profit or loss</i>			<i>Held at fair value through other comprehensive income</i>		
	<i>Net exposure</i>	<i>Favourable changes</i>	<i>Unfavourable changes</i>	<i>Net exposure</i>	<i>Favourable changes</i>	<i>Unfavourable changes</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Debt securities	486	535	438	–	–	–
Advances to customers	1,976	2,004	1,931	–	–	–
Equity shares	378	416	340	978	1,075	880
Debt securities issued	(281)	(281)	(282)	–	–	–
Structured bank deposits	(1,133)	(1,133)	(1,133)	–	–	–
Structured customer deposits	(182)	(172)	(189)	–	–	–
Negative fair value of derivatives	(27)	(4)	(51)	–	–	–
	<u>1,217</u>	<u>1,365</u>	<u>1,054</u>	<u>978</u>	<u>1,075</u>	<u>880</u>
	2019					
	<i>Held at fair value through profit or loss</i>			<i>Held at fair value through other comprehensive income</i>		
	<i>Net exposure</i>	<i>Favourable changes</i>	<i>Unfavourable changes</i>	<i>Net exposure</i>	<i>Favourable changes</i>	<i>Unfavourable changes</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Debt securities	232	255	209	–	–	–
Advances to customers	2,232	2,239	2,190	–	–	–
Equity shares	553	608	498	435	477	390
Positive fair value of derivatives	7	7	6	–	–	–
Debt securities issued	(409)	(409)	(409)	–	–	–
Structured bank deposits	(437)	(437)	(437)	–	–	–
Negative fair value of derivatives	(76)	(76)	(76)	–	–	–
	<u>2,102</u>	<u>2,187</u>	<u>1,981</u>	<u>435</u>	<u>477</u>	<u>390</u>

These reasonably possible alternatives could have increased or decreased the values of financial instruments held at fair value through profit or loss and those classified as fair value through other comprehensive income by the amounts disclosed below.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(a) Valuation of financial instruments carried at fair value (continued)**

<i>Financial instruments</i>	<i>Fair value changes</i>	<i>At 31 December</i>	<i>At 31 December</i>
		<i>2020</i>	<i>2019</i>
		<i>HK\$'M</i>	<i>HK\$'M</i>
Held at fair value through profit or loss	Possible increase	148	85
	Possible decrease	163	121
Held at fair value through other comprehensive income	Possible increase	97	42
	Possible decrease	98	45

(b) Valuation of financial instruments carried at amortised cost

All financial instruments are stated at fair value or amounts not materially different from their fair value as at 31 December 2020 and 2019, except for subordinated liabilities.

The following table summarises the carrying amounts and fair values (including the valuation hierarchy) of subordinated liabilities. The values in the table below are stated as at 31 December and may be different from the actual amounts that will be received on the settlement or maturity of the subordinated liabilities.

	<i>2020</i>			<i>2019</i>		
	<i>Carrying amount</i>	<i>Fair value Level 1</i>	<i>Fair value Level 2</i>	<i>Carrying amount</i>	<i>Fair value Level 1</i>	<i>Fair value Level 2</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Subordinated liabilities ¹	46,766	–	46,985	41,985	5,931	36,123

¹ The subordinated liabilities comprise of internal issuance grouped under amounts due to immediate holding company and amounts due to fellow subsidiaries (note 16), and external issuance grouped under subordinated liabilities (note 28).

The following sets out the Group's basis of establishing the fair value of its financial assets and liabilities which are not carried at fair value. The basis for establishing the fair value of financial assets and liabilities held at fair value and of derivatives is set out in note 2(i), respectively.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Advances to banks and other financial institutions

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(b) Valuation of financial instruments carried at amortised cost (continued)****Advances to customers**

Advances are net of provisions for impairment. The estimated fair value of advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and balances of banks, other financial institutions and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue and subordinated liabilities

The aggregate fair values are calculated based on quoted market prices. For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current market yield curve appropriate for the remaining term to maturity.

(c) Transfers of financial assets

The Group enters into collateralised repurchase agreements (repos). These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Assets pledged in respect of repos continue to be recognised on the consolidated statement of financial position as the Group retains substantially the associated risk and rewards of these assets. The associated liability is included in "Amounts due to immediate holding company".

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

	2020 HK\$'M	2019 HK\$'M
Collateral pledged against repurchase agreements		
On balance sheet		
Investment securities	25,184	17,743
Off balance sheet		
Repledged collateral received	552	–
	<u>25,736</u>	<u>17,743</u>
Balance sheet liabilities – repurchase agreements		
Amount due to banks	6,385	3,320
Amount due to customers	18,324	13,980
Amount due to fellow subsidiaries	487	–
	<u>25,196</u>	<u>17,300</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(d) Offsetting financial assets and financial liabilities**

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

	2020					Net amount HK\$'M
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position	
Assets	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Positive fair values of derivative financial instruments	126,658	–	126,658	(99,113)		27,545
Reverse repos, securities borrowing and similar agreements	57,946	–	57,946	(55,180)		2,766
	<u>184,604</u>	<u>–</u>	<u>184,604</u>	<u>(154,293)</u>		<u>30,311</u>
Liabilities	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Negative fair values of derivative financial instruments	148,855	–	148,855	(110,191)		38,664
Repos and similar agreements	25,196	–	25,196	(487)		24,709
	<u>174,051</u>	<u>–</u>	<u>174,051</u>	<u>(110,678)</u>		<u>63,373</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(d) Offsetting financial assets and financial liabilities (continued)**

	2019					Net amount HK\$'M
	Gross amounts of recognised financial assets in the consolidated statement of financial position HK\$'M	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK\$'M	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'M	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'M	Related amounts not offset in the consolidated statement of financial position HK\$'M	
Assets						
Positive fair values of derivative financial instruments	57,748	–	57,748	(44,815)		12,933
Reverse repos, securities borrowing and similar agreements	67,689	–	67,689	(62,753)		4,936
	<u>125,437</u>	<u>–</u>	<u>125,437</u>	<u>(107,568)</u>		<u>17,869</u>
Liabilities						
Negative fair values of derivative financial instruments	63,082	–	63,082	(46,670)		16,412
Repos and similar agreements	17,300	–	17,300	(10,000)		7,300
	<u>80,382</u>	<u>–</u>	<u>80,382</u>	<u>(56,670)</u>		<u>23,712</u>

The Group is able to offset assets and liabilities which do not meet the HKAS 32/IAS 32 netting criteria (see note 2(l)). Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repos and reverse repos. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other pre-determined events, therefore the related financial assets and financial liabilities are not offset in the consolidated statement of financial position.

Under repos and reverse repos, the Group would pledge (legally sell) and obtain (legally purchase) financial collateral which are mainly highly liquid assets which can be sold in the event of a default.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***35 Financial instruments (continued)****(d) Offsetting financial assets and financial liabilities (continued)**

The related amounts not offset in the consolidated statement of financial position which are disclosed in the table above include financial instruments covered by master netting arrangements and financial collateral pledged and obtained, but exclude the effect of over collateralisation.

36 Assets pledged as security for liabilities

The Group maintains pledged cash and securities accounts to secure any borrowings or other obligations resulting from the Group's use of clearing systems and to cover short positions. As at 31 December 2020, the Group had securities amounting to HK\$20,030 million (2019: HK\$19,425 million) to cover the short positions.

Reverse repos and securities borrowing transactions

The Group also undertakes reverse repos and securities borrowing transactions as set out in the table below:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Consolidated statement of financial position assets - reverse repos and securities borrowing		
Advances to banks and other financial institutions	3,393	5,889
Advances to customers	4,629	2,365
Amounts due from fellow subsidiaries	49,924	59,435
	<u>57,946</u>	<u>67,689</u>

Under reverse repos and securities borrowing arrangements, the Group obtains securities on terms that permit it to repledge or resell the securities to others. The amount of securities which the Group is able to repledge or resell are as follows:

	<i>2020</i> <i>HK\$'M</i>	<i>2019</i> <i>HK\$'M</i>
Securities and collateral that can be repledged or sold (at fair value)	56,645	63,841
Thereof repledged/transferred to others under repos (at fair value)	<u>552</u>	<u>–</u>

These transactions are conducted under terms that are usual and customary to standard lending and stock borrowing activities.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***37 Material related party transactions**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 7 is as follows:

	2020 HK\$'M	2019 HK\$'M
Short-term employee benefits	145	79
Post-employment benefits	6	3
Equity compensation benefits	18	16
	<u>169</u>	<u>98</u>

Total remuneration is included in staff costs (see note 4(f)).

(b) Credit facilities and loans to key management personnel

During the year, the Group provided credit facilities to key management personnel of the Group and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2020 HK\$'M	2019 HK\$'M
Loan balances:		
At 1 January	<u>23</u>	<u>19</u>
At 31 December	<u>48</u>	<u>23</u>
Average balance during the year	<u>56</u>	<u>29</u>
Income earned	<u>1</u>	<u>1</u>
Undrawn commitments	<u>124</u>	<u>87</u>

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***37 Material related party transactions (continued)****(c) Loans, quasi-loans and other dealings to directors and entities controlled by directors**

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

	2020 HK\$'M	2019 HK\$'M
Aggregate amount of relevant loans by the Group outstanding at 31 December	24	8
Maximum aggregate amount of relevant loans by the Group outstanding during the year	51	35

(d) Related party transactions with associates and joint ventures of SC PLC Group

During the year, the Group entered into transactions with associates and joint ventures of SC PLC Group in the ordinary course of its banking business and on substantially the same terms as for comparable transactions with third-party counterparties. The amounts of material transactions during the year are set out below:

	2020 HK\$'M	2019 HK\$'M
Amounts due from associates and joint ventures	4	1
Deposits from associates and joint ventures	1,405	261
Operating income	29	26

38 Share based payments

SC PLC operates a number of share-based arrangements for its directors and employees.

2011 Standard Chartered Share Plan (the '2011 Plan')

The 2011 Plan was approved by shareholders in May 2011 and is SC PLC's main share plan. Since approval, it has been used to deliver various types of share awards:

(i) Long Term Incentive Plan ('LTIP')

These are awards granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return ('TSR'); return on equity ('RoE') and return on tangible equity ('RoTE') (in the case of both 'RoE' and 'RoTE', with a Common Equity tier 1 ('CET 1') underpin); strategic measures; earnings per share ('EPS') growth; and return on risk-weighted assets ('RoRWA'). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Share based payments (continued)**2011 Standard Chartered Share Plan (the '2011 Plan') (continued)****(ii) Deferred share awards**

Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables SC PLC to meet regulatory requirements relating to deferral levels, and is in line with market practice.

(iii) Restricted shares

Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables SC PLC to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by the Group's competitors, restricted share awards are not subject to an annual limit and do not have any performance measures.

Under the 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is one years.

2001 Performance Share Plan (2001 PSP)

SC PLC's previous plan for delivering performance shares was the 2001 PSP. There are no outstanding vested awards under this plan. This plan is closed and no further awards will be granted under this plan.

2013 Sharesave Plan

Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may save up to £250 per month over three years to purchase ordinary shares in the Company at a discount of up to 20 percent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 2013 Sharesave Plan and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries, where possible, the Group offers an equivalent cash-based plan to its employees.

The 2013 Sharesave Plan was approved by shareholders of SC PLC in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is two years.

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***38 Share based payments (continued)****2011 Standard Chartered Share Plan (the 2011 plan)****Valuation – LTIP**

The vesting of awards granted in both 2020 and 2019 is subject to relative 'TSR' performance measures and achievement of a strategic scorecard. The vesting of award granted in 2019 and 2020 are subject to the satisfaction of 'RoTE' (subject to a capital 'CET 1' underpin). The fair value of the 'TSR' component is calculated using the probability of meeting the measures over a three-year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the 'RoTE' and strategic measures in the scorecard, to determine the accounting charge.

No dividend equivalents accrue for the LTIP awards made in 2019 or 2020 and the fair value takes this into account, calculated by reference to market consensus dividend yield.

<i>Grant Date</i>	<u>2020</u>	<u>2019</u>
	<i>9 March</i>	<i>11 March</i>
Share price at grant date (£)	5.20	6.11
Vesting period (years)	3-7	3-7
Expected dividends (yield) (%)	4.20	4.20
Fair value (RoTE) (£)	1.40, 1.34	2.02
Fair value (TSR) (£)	0.75, 0.72	0.97, 0.91
Fair value (Strategic) (£)	1.40, 1.34	2.02

Valuation – deferred shares and restricted shares

The fair value for deferred awards which are not granted to material risk takers is based on 100 percent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends. For awards granted to material risk takers in 2020, the fair value of awards takes into account the lack of dividend equivalents, calculated by reference to market consensus dividend yield.

<i>Grant Date</i>	<u>2020</u>						<u>2019</u>			
	<i>22 June</i>	<i>30 March</i>		<i>9 March</i>		<i>24 June</i>		<i>11 March</i>		
Share price at grant date (£)	4.27	4.67		5.20		7.03		6.11		
<i>Vesting Period</i>	<i>Expected dividend yield (%)</i>	<i>Fair value (£)</i>	<i>Expected dividend yield (%)</i>	<i>Fair value (£)</i>	<i>Expected dividend yield (%)</i>	<i>Fair value (£)</i>	<i>Expected dividend yield (%)</i>	<i>Fair value (£)</i>	<i>Expected dividend yield (%)</i>	<i>Fair value (£)</i>
1-3 years	N/A	4.27	N/A, 4.20	4.67, 4.13	N/A, 4.20, 4.20	5.20, 4.79, 4.59	N/A, 4.20	7.03, 6.47, 6.21	N/A, 4.20	6.11, 6.52
1-5 years	-	-	4.20	4.04	4.20, 4.20	4.59, 4.50	4.20	-	4.20, 4.20	5.29, 5.40
3-7 years	-	-	-	-	4.20, 4.20	4.23, 4.06	-	-	4.20, 4.20	4.77, 4.97

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***38 Share based payments (continued)****Restricted Share Awards**

		2020							
Grant Date	26 November		30 September		22 June		9 March		
Share price at grant date (£)	4.71		3.52		4.27		5.20		
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	
1 year	4.20	4.34, 4.52	4.20	3.38	4.20	4.10	4.20	4.99	
2 years	4.20	4.16, 4.34	4.20	3.24	4.20	3.93	4.20	4.79	
3 years	4.20	4.16	4.20	3.11	4.20	3.77	4.20	4.59	
4 years	4.20	4.00	4.20	2.98	4.20	3.62	4.20	4.41	
5 years	-	-	-	-	4.20	3.48	4.20	4.23	

		2019							
Grant Date	28 November		1 October		24 June		11 March		
Share price at grant date (£)	7.04		6.84		7.03		6.11		
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	
1 year	4.20	6.75	4.20	6.57	4.20	6.74	4.20	5.86, 5.62, 5.74	
2 years	4.20	6.48	4.20	6.30	4.20	6.47	4.20	5.62, 5.40	
3 years	4.20	6.22	4.20	6.05	4.20	6.21	4.20	5.40	
4 years	-	-	4.20	5.80	4.20	5.96	4.20	5.18	
5 years	-	-	4.20	5.57	4.20	5.72	-	-	

Sharesave (2013 Sharesave)

Valuation

Options under the sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive director. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant Date	2020 30 September	2019 1 October
Share price at grant date (£)	3.52	6.84
Exercise price (£)	3.14	4.98
Vesting period (years)	3	3
Expected volatility (%)	31.8	25.3
Expected option life (years)	3.33	3.33
Risk free rate (%)	(0.07)	0.26
Expected dividends (yield) (%)	4.20	4.20
Fair value (£)	0.69	1.62

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***38 Share based payments (continued)****Sharesave (2013 Sharesave) (continued)**

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk free-rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is calculated by reference to market consensus dividend yield.

Reconciliation of share award movements for the year to 31 December 2020

	<i>2011 Plan</i>				<i>Weighted average Sharesave exercise price (£)</i>
	<i>LTIP</i>	<i>Deferred/ Restricted shares</i>	<i>PSP</i>	<i>2013 Sharesave</i>	
Outstanding at 1 January 2020	2,125,060	4,399,736	4,878	5,930,698	5.28
Granted	155,811	2,991,128	–	3,655,753	3.14
Lapsed	(8,661)	(152,354)	–	(1,431,274)	5.26
Exercised	(8,484)	(1,629,478)	(172)	(92,238)	5.30
Outstanding at 31 December 2020	2,263,726	5,609,032	4,706	8,062,939	4.32
Exercisable at 31 December 2020	–	513,457	4,706	918,932	
Range of exercise prices (£)	–	–	–	3.14-6.20	
Weighted average contractual remaining life (years)	5.75	8.15	0.62	2.46	

Reconciliation of share award movements for the year to 31 December 2019

	<i>2011 Plan</i>				<i>Weighted average Sharesave exercise price (£)</i>
	<i>LTIP</i>	<i>Deferred/ Restricted shares</i>	<i>PSP</i>	<i>2013 Sharesave</i>	
Outstanding at 1 January 2019	2,940,770	4,102,989	13,191	6,572,643	5.49
Granted	146,329	2,269,223	–	2,404,368	4.98
Lapsed	(207,270)	(204,389)	–	(628,085)	5.50
Exercised	(754,769)	(1,768,087)	(8,313)	(2,418,228)	5.49
Outstanding at 31 December 2019	2,125,060	4,399,736	4,878	5,930,698	5.28
Exercisable at 31 December 2019	–	531,318	7,506	714,574	
Range of exercise prices (£)	–	–	–	4.98 – 6.20	
Weighted average contractual remaining life (years)	6.50	8.09	1.64	2.40	

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

39 Ultimate and immediate holding company

The Bank's ultimate and immediate holding company is SC PLC, a company registered in England and Wales. SC PLC has listings on the London Stock Exchange and the Stock Exchange of Hong Kong. In addition, The Indian Depository Receipt (IDR) programme termination notice period ended on 15 June 2020. SC PLC was formally delisted from the BSE Limited and National Stock Exchange of India Limited in the form of IDR with effect from 22 July 2020.

40 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions about the effects of uncertain future events on those assets and liabilities at the reporting date. These estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically as actual results may differ from these estimates.

Pensions

Actuarial assumptions are made in valuing defined benefit obligations as set out in note 27 and are updated periodically.

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax liabilities are recognised on all temporary differences and deferred tax assets are recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Fair value of financial instruments

Notes 2(i) and 35 provide further information on the Group's fair value accounting policy and process.

Impairment of leased assets

The carrying amount of the Group's leased assets is based on the application of judgement and estimates to determine the most appropriate recoverable amount for each asset. Estimates involve the appropriate cash flows, discount rates and residual values used in determining a value-in-use, whilst whereby the recoverable amount is determined with reference to a current market value, judgement is required in determining the appropriate observable third party valuations to use.

Impairment of financial assets

Policies on impairment of financial assets are set out in note 2(k).

Goodwill impairment

An annual assessment is made, as set out in note 20, as to whether the current carrying value of goodwill is impaired.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2020

Up to the date of issue of the consolidated financial statements, the HKICPA/IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Interest Rate Benchmark Reform – Phase 2 amendments to HKFRS/IFRS 9, HKAS/IAS 39, HKFRS/IFRS 7, HKFRS/IFRS 4 and HKFRS/IFRS 16

In August 2020 the HKICPA/IASB published the second phase of its amendments to HKFRS/IFRS concerning the global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Phase 2 focuses on issues expected to affect financial reporting when an existing IBOR is replaced with an alternative risk-free rate (RFR). These amendments are effective from 1 January 2021.

The Phase 2 amendments contain a practical expedient to account for the change in benchmark interest rate in a financial instrument to be treated as a change in floating interest rate, provided the re-papered instrument denominated in the alternative RFR is on an economically equivalent basis to the original IBOR-linked instrument.

Any other change to contractual terms would be assessed under the Group's accounting policies for loan modifications, including an assessment of whether derecognition of the original instrument is required.

The amendments also provide reliefs which allow the Group to change hedge designations and corresponding documentation without the hedge relationship being discontinued. These include the ability to:

- redefine the description of the hedged item and/or hedging instrument
- redefine the hedged risk to reference an alternative RFR
- change the method for assessing hedge effectiveness due to modifications required by IBOR reform
- elect, on a hedge-by-hedge basis, to reset the cumulative fair value changes in the assessment of retrospective hedge effectiveness to zero

A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform (for example, if the hedged item and hedging instrument are re-papered into the alternative RFR at different times).

42 Comparative amounts

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

In addition, in alignment with SC PLC Group's accounting policies, the presentation of "Balances with banks and other financial institutions" are re-grouped within "Advances to banks and other financial institutions".

Notes to the consolidated financial statements (continued)*(Expressed in millions of Hong Kong dollars)***43 Statement of financial position of the Bank as at 31 December 2020**

	2020 HK\$'M	2019 HK\$'M
Assets		
Cash and balances at central banks	7,161	20,869
Advances to banks and other financial institutions	80,787	88,214
Hong Kong SAR Government certificates of indebtedness	56,561	53,821
Financial assets at fair value through profit or loss	123,774	65,047
Investment securities	298,507	265,360
Advances to customers	560,668	555,136
Amounts due from fellow subsidiaries	239,931	134,850
Amounts due from subsidiaries of the Bank	36,231	81,977
Investments in subsidiaries of the Bank	47,871	46,659
Interest in an associate	3,168	3,168
Property, plant and equipment	4,804	5,399
Goodwill and intangible assets	2,351	2,056
Deferred tax assets	–	48
Other assets	25,557	41,717
	<u>1,487,371</u>	<u>1,364,321</u>
Liabilities		
Hong Kong SAR currency notes in circulation	56,561	53,821
Deposits and balances of banks and other financial institutions	34,300	24,095
Deposits from customers	1,037,563	948,677
Financial liabilities at fair value through profit or loss	32,448	35,371
Debt securities in issue	–	350
Amounts due to immediate holding company	36,940	30,655
Amounts due to fellow subsidiaries	108,854	39,133
Amounts due to fellow subsidiaries of the Bank	11,965	46,994
Current tax liabilities	1,581	1,678
Deferred tax liabilities	57	–
Other liabilities	33,777	52,880
Subordinated liabilities	–	5,875
	<u>1,354,046</u>	<u>1,239,529</u>
Equity		
Share capital	65,025	65,025
Reserves	51,567	50,784
Shareholders' equity	116,592	115,809
Other equity instruments	16,733	8,983
	<u>133,325</u>	<u>124,792</u>
	<u>1,487,371</u>	<u>1,364,321</u>

Approved and authorised for issue by the Board of Directors on 25 February 2021.

HUNG Pi Cheng Benjamin
Director

Gregory John POWELL
Director

44 Statement of changes in equity of the Bank for the year ended 31 December 2020

	Share capital HK\$'M	Own credit adjustment reserve HK\$'M	Cash flow hedge reserve HK\$'M	FVOCI reserve – Debt HK\$'M	FVOCI reserve – Equity HK\$'M	Other reserves HK\$'M	Retained profits HK\$'M	Sub-total	Other equity instruments HK\$'M	Total HK\$'M
At 1 January 2019	65,025	715	286	(85)	253	154	45,374	111,722	1,952	113,674
Issuance of other equity instruments, net of expenses	-	-	-	-	-	-	-	-	7,031	7,031
Total comprehensive income	-	(745)	(668)	272	(43)	-	9,666	8,482	-	8,482
Dividend paid	-	-	-	-	-	-	(4,391)	(4,391)	-	(4,391)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	(4)	(4)	-	(4)
At 31 December 2019	<u>65,025</u>	<u>(30)</u>	<u>(382)</u>	<u>187</u>	<u>210</u>	<u>154</u>	<u>50,645</u>	<u>115,809</u>	<u>8,983</u>	<u>124,792</u>
Redemption of preference shares	-	-	-	-	-	-	(3,880)	(3,880)	-	(3,880)
Issuance of other equity instruments, net of expenses	-	-	-	-	-	-	-	-	7,750	7,750
Total comprehensive income	-	23	14	675	(72)	-	8,752	9,392	-	9,392
Dividend paid	-	-	-	-	-	-	(4,845)	(4,845)	-	(4,845)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	116	116	-	116
At 31 December 2020	<u>65,025</u>	<u>(7)</u>	<u>(368)</u>	<u>862</u>	<u>138</u>	<u>154</u>	<u>50,788</u>	<u>116,592</u>	<u>16,733</u>	<u>133,325</u>

Appendix I: Corporate Governance Report

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority (“HKMA”)

Corporate Governance Practices and objectives

Standard Chartered Bank (Hong Kong) Limited (the “Bank”) has followed the module on “Corporate Governance of Locally Incorporated Authorised Institutions” (“CG-1”) under the Supervisory Policy Manual (“SPM”) issued by the HKMA throughout the year ended 31 December 2020.

Organisational and governance structure and policies

Board Composition

Chairperson

Edward Martin WILLIAMS

Executive Directors

Pi Cheng Benjamin HUNG

Gregory John POWELL

Darren Suk KIM

Wai Yi Mary HUEN

Yee Mann HAU

Non-Executive Directors

Edward Martin WILLIAMS

Cheuk Kuen Gloria LEE

Michael Andres GORRIZ

Independent Non-Executive Directors

Ching FONG

Stephen Robert ENO

Wai Sun Edward CHENG

Lieh Cheung Andrew TUNG

Appendix I: Corporate Governance Report (continued)**Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)****Organisational and governance structure and policies (continued)*****Board Composition (continued)*****Edward Martin WILLIAMS**

Chairman, Non-Executive Director

Mr. Williams was appointed to the Board in August 2015 and became the Chairman on 1 June 2019.

Prior to 2017, Mr. Williams was the Deputy Group Chief Risk Officer for Standard Chartered Group and responsible for risk governance for a significant number of the Group's major operating subsidiaries. He was also responsible for approvals and the oversight of a significant number of Standard Chartered's largest and most complex transactions and counter-party exposures, as well as significant consumer bank portfolios. Mr. Williams was actively involved in Standard Chartered Group's problem credit portfolio and most significant risk problems.

Mr. Williams has over 40 years of financial services experience, with over 20 years in Asia. He has worked at the Standard Chartered Group for over 17 years, holding or having held directorships of the Standard Chartered Group's subsidiaries in China, Korea, Taiwan and Malaysia. Mr. Williams was previously Group Head of Group Special Assets Management, the corporate restructuring and workout division. Prior to joining Standard Chartered Group, Mr. Williams had held a variety of senior management positions at Citicorp/Citibank and Westpac Banking Corporation in various countries.

Mr. Williams holds a master's degree in Business Administration from Harvard Graduate School of Business, a Master of Science degree in Aerospace Engineering from Massachusetts Institute of Technology, and a Bachelor of Science degree in Aerospace Engineering from Princeton University.

Pi Cheng Benjamin HUNG

Executive Director and Regional Chief Executive Officer, Asia

Mr. Hung was appointed to the Board in January 2008 and was the Chairperson between May 2014 and May 2019.

Mr. Hung is the Regional CEO for Asia. He sits on the Standard Chartered Group's Management Team. He is also the chairperson of Standard Chartered Bank (China) Limited.

Mr. Hung joined Standard Chartered Group in 1992 and has held a number of senior management positions spanning corporate, commercial and retail banking. Prior to his current role, Mr. Hung was the Regional CEO of Greater China & North Asia, the CEO of Retail Banking and CEO of Wealth Management business globally for Standard Chartered Bank. Mr. Hung had worked in American Express Bank Canada and Spar Aerospace Canada before joining Standard Chartered.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Pi Cheng Benjamin HUNG (continued)

Mr. Hung is a member of the Hong Kong Chief Executive's Council of Advisers on Innovation and Strategic Development, the Exchange Fund Advisory Committee, the Hong Kong Exchanges and Clearing Limited's Board of Directors, the General Committee of the Hong Kong General Chamber of Commerce. He was previously the chairman of the Hong Kong Association of Banks, a member of the Financial Services Development Council, a board member of the Hong Kong Airport Authority and the Hong Kong Hospital Authority, and a Council Member of the University of Hong Kong.

He holds a Master of Business Administration from University of Toronto and a Bachelor of Arts in Business Administration from University of Washington.

Wai Yi Mary HUEN

*Executive Director and Chief Executive Officer, Hong Kong
Cluster Chief Executive Officer, Hong Kong, Taiwan and Macau*

Ms. Huen was appointed to the Board in September 2016. She became the Chief Executive Officer, Hong Kong in March 2017 and has been appointed as the Cluster Chief Executive Officer, Hong Kong, Taiwan and Macau since 1 January 2021.

Ms. Huen has over 30 years of experience in business management and banking services. Since joining the Bank in 1991, she has held various key positions across balance sheet product management, wealth management and distribution. Prior to her current role, Ms. Huen was Regional Head of Retail Banking, Greater China & North Asia and the Head of Retail Banking, Hong Kong. She is a board member of Standard Chartered Bank (Taiwan) Limited and Chairperson of the Board of Mox Bank Limited.

Ms. Huen is the Vice Chairperson of the Hong Kong Association of Banks, Vice President of the council of the Hong Kong Institute of Bankers, and a council member of the Treasury Markets Association. She is also a member of the Banking Advisory Committee, and the Exchange Fund Advisory Committee Financial Infrastructure and Market Development Sub-Committee of the Hong Kong Monetary Authority. She has been invited as member of the Hong Kong Academy of Finance since its establishment in 2019.

Outside of banking, she is a council member of the Hong Kong Trade Development Council (HKTDC), a member of the HKTDC Belt and Road & Greater Bay Area Committee, Chairperson of the HKTDC Financial Services Advisory Committee and the HKTDC Asian Financial Forum Steering Committee, a member of the Board of the Community Chest of Hong Kong, Hong Kong Tourism Board and Hospital Authority, a panel member of the Anti-Money Laundering and Counter-Terrorist Financing Review Tribunal, an elected council member of the Hong Kong Management Association, a member of the MBA Programme Advisory Board at the Chinese University of Hong Kong and a member of the Women's Commission established under the Labour and Welfare Bureau of the Hong Kong government. She has been recently appointed as a representative of Hong Kong, China to the Asia-Pacific Economic Cooperation Business Advisory Council.

Ms. Huen received a Bachelor of Arts degree from the University of Hong Kong.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Gregory John POWELL

Executive Director and Acting Chief Financial Officer, Asia

Mr. Powell was appointed to the Board on 1 June 2019. He was the Regional Chief Financial Officer for GCNA from March 2017 to 31 December 2020. He has been appointed as the Acting Chief Financial Officer for Asia since 1 January 2021.

Mr. Powell joined the Standard Chartered Group in 1996 and has held a number of senior management roles in Finance including the Regional Chief Financial Officer of Standard Chartered Bank (Korea) Limited from September 2013 to January 2016 and the Group Head of Performance Management from December 2008 to August 2013. He is also the Chairman and non-executive director for Standard Chartered Bank (Taiwan) Limited since August 2017.

Mr. Powell is a member of the Institute of Chartered Accountant in England and Wales and holds a Bachelor of Sciences (Honors) in Biology from University of Sussex.

Darren Suk KIM

Executive Director and Chief Risk Officer, Asia

Mr. Kim was appointed to the Board on 1 June 2019. He was the Regional Chief Risk Officer for GCNA since July 2017 and the Regional Chief Credit Officer for GCNA since August 2017 until 31 December 2020. He has been appointed as the Chief Risk Officer Asia since 1 January 2021.

Mr. Kim first joined Standard Chartered Group in February 2014 as the Head of Corporate Institutional and Commercial Risk. In November 2015, he started double-hatting as Chief Credit Officer of Corporate Institutional and Commercial Risk in Korea and SCB Tokyo Branch & Chief Risk Officer of Standard Chartered Bank Korea. Prior to his roles in Standard Chartered Group, Darren held multiple credit and market risk roles at Bank of America before he moved to Hong Kong to join Merrill Lynch as Regional Credit Officer before becoming the Head of Risk Management Asia/Oceania ex-Japan at Daiwa.

Mr. Kim holds a Master of Business Administration with concentration in Finance from Fordham University and a Bachelor of Arts degree in Economics from University of Connecticut.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Yee Mann HAU

*Executive Director and Chief Financial Officer, Hong Kong
Cluster CFO, HK, Taiwan & Macau*

Ms. Hau was appointed to the Board in April 2017 and became the Chief Financial Officer, Hong Kong at the same time. Prior to her current role, Ms. Hau was the Chief Financial Officer and Executive Director of Standard Chartered Bank (China) Limited.

Ms. Hau joined the Standard Chartered Group in Hong Kong in 2007 and was previously Financial Controller, Hong Kong. Ms. Hau qualified as a chartered accountant with KPMG in London and moved to Hong Kong with KPMG. Ms. Hau has over 25 years of banking experience. Before joining the Bank, Ms. Hau worked for 12 years with HSBC in Hong Kong.

Ms. Hau is a chartered accountant with the Institute of Chartered Accountants in England and Wales, and Hong Kong Institute of Certified Public Accountants.

Cheuk Kuen Gloria LEE

Non-Executive Director

Ms. Lee was appointed to the Board in May 2017.

Prior to her appointment as Non-executive Director of the Bank, Ms. Lee had held numerous roles in Standard Chartered Group including Vice Chair, Commercial Banking, Hong Kong; Vice Chair, Corporate & Institutional Clients, Hong Kong; Head, Corporate & Institutional Clients, Hong Kong; Head of Origination & Client Coverage, Hong Kong; Head of Client Relationships, Hong Kong; Head of Local Corporates, Hong Kong and Pearl River Delta and Senior Manager, General Manufacturing and Trading, Hong Kong.

Ms. Lee received a Bachelor of Social Sciences Degree majoring in Economics from the University of Hong Kong.

Michael Andres GORRIZ

Non-Executive Director

Mr. Gorriz was appointed to the Board in February 2018.

Mr. Gorriz joined the Bank as Group Chief Information Officer in July 2015 and is responsible for the systems development and technology infrastructure which underpin the Bank's client services. He is also responsible for defining and implementing the Bank's digital and innovation agenda. With technology at the heart of the Bank's growth strategy, Mr. Gorriz's capabilities and experience to drive innovation and change in technology and operations are key as he takes the Bank through its transformation journey of becoming a digital Bank with a human touch.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Michael Andres GORRIZ (continued)

Prior to joining Standard Chartered, Mr. Gorriz was Vice President and CIO at Daimler AG where he was globally responsible for strategy, planning and development of the Group's IT systems, as well as the operation of its technical infrastructure. Mr. Gorriz was instrumental in driving the digital transformation within Daimler, for both employees and customers, having found programmes such as Digital Life, a systematic evaluation of the impact of social media and the internet on its employees, products, and customers, and the highly successful and widely used Mercedes. Me, a personalised portal for car owners to monitor everything associated with their car. During his 29 years at Daimler, Mr. Gorriz progressed through specialist research and design roles in aerospace to general management roles.

Mr. Gorriz has won numerous awards – including the Global CIO award of the Indian NASSCOM and is one of only three CIOs in Germany nominated to a list of the 40 most important people in IT in the last 40 years.

Mr. Gorriz is a physicist and engineer by background and obtained a PhD in Engineering. He is based in Singapore.

FONG Ching

Independent Non-Executive Director

Dr. Fong was appointed to the Board in May 2013.

Dr. Fong was the former Non-Executive Chairman of the Securities and Futures Commission from 2006 to 2012 in Hong Kong. He serves as an independent non-executive director of MTR Corporation Limited and previously an independent non-executive director of Standard Chartered Bank (China) Limited and Mox Bank Limited. He is also the Chairman of Lifeline Express Hong Kong Foundation.

His past public services include serving as a Non-Executive Director of the Hong Kong Mortgage Corporation Limited and Mandatory Provident Fund Schemes Authority; a member of the Hong Kong Housing Authority and Chairman of the Open University of Hong Kong.

Dr. Fong received his education both in Hong Kong and in the United Kingdom. He graduated from the University of Kent in the United Kingdom and subsequently qualified as a member of the Institute of Chartered Accountants in England and Wales. Upon returning to Hong Kong, he continued to pursue a career in public accounting. He was a senior audit partner with PricewaterhouseCoopers until his retirement in 2003.

Dr. Fong was appointed a Justice of the Peace in 1996 and was awarded the Gold Bauhinia Star in 2008 by the HKSAR Government. He was awarded an Honorary Doctor of Civil Law by the University of Kent in July 1997 and an Honorary Doctor of Social Services by the Hong Kong Open University in December 2017. He was also awarded an Honorary Fellowship by the Hong Kong Academy for Performing Arts in 2010.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Stephen Robert ENO

Independent Non-Executive Director

Mr. Eno was appointed to the Board in July 2013.

Mr. Eno was a partner of Baker & McKenzie from July 1987 to December 2011 and continued as a global consultant from 1 January 2012 to 30 June 2013. He was the Chairman of the Education Committee of the British Chamber of Commerce from 2004 to 2014, and a member of the Board of Governors of Chinese International School from 1995 to 2017. He is also currently a director of the Hong Kong Youth Arts Foundation.

Mr. Eno holds a BA (hons.) degree in law (2:1) from the University of Kent in England. He is qualified as a solicitor in Hong Kong and England and Wales, as a notary in Hong Kong, and is also an accredited Hong Kong Mediator.

Wai Sun Edward CHENG

Independent Non-Executive Director

Mr. Cheng was appointed to the Board in April 2014.

Mr. Cheng is the Deputy Chairman and Chief Executive of Wing Tai Properties Limited, and the Chairman of Lanson Place Hospitality Management Limited.

Mr. Cheng has many years of public service experience in urban renewal, housing, finance, corruption prevention, technology and education. He was the Chairman of each of the Urban Renewal Authority and the University Grants Committee of Hong Kong. He is currently a non-executive director of the Securities and Futures Commission and a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development.

Mr. Cheng has a Bachelor's degree in political science and economics from Cornell University, and a Bachelor's degree in jurisprudence and a Master's degree from Oxford University. He was qualified as a solicitor in England and Wales as well as in Hong Kong. He is a Justice of the Peace and has been awarded the Gold Bauhinia Star by the HKSAR Government.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Composition (continued)

Lieh Cheung Andrew TUNG

Independent Non-Executive Director

Mr. Tung was appointed to the Board in July 2015.

Mr. Tung is Managing Partner of QBN Management Limited, a Non-Executive Director of Orient Overseas (International) Limited and also an Independent Non-Executive Director of Cathay Pacific Airways Limited.

Mr. Tung holds a Bachelor's degree from Princeton University and a Master of Business Administration degree from Stanford University in the USA. He is also a member of the Hong Kong Logistics Development Council and a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development.

Board selection process

The Nomination Committee regularly reviews the structure, size and composition of the Board and identifies individuals suitably qualified to become members of the Board. The Committee makes recommendations to the Board on the appointment of and succession planning for Directors (subject to the approval of the HKMA), having regard to the skills, knowledge, experience and diversity the candidate adds to the Board and compliance with corporate governance standards set out in the HKMA Supervisory Policy Manual CG-1 and the guidance on Empowerment of Independent Non-Executive Directors ("INEDs") in the Banking Industry in Hong Kong issued by the HKMA.

A candidate being considered for Board appointment is expected to devote adequate time to attend all Board meetings and, where relevant, Committee meetings in person. An individual who is to be appointed as an INED should also meet the independence status prior to their appointment.

In accordance with the Articles of Association of the Bank, a Director appointed by the Board shall hold office only until the next following Annual General Meeting and shall be eligible for re-election.

Board Committees

(a) The Board of Directors ("the Board")

The Board is responsible for overseeing the management of the business and affairs of the Bank including the determination and approval of the Bank's financial objectives and strategic plan. It oversees the Bank's compliance with statutory and regulatory obligations, its capital and corporate structure and ensures a sound system of internal control and risk management. The Board also reviews performance in light of the Bank's strategy, objectives, corporate and business plans and budgets and determines appropriate levels for the Bank's capital and liquidity positions. The Board delegates day-to-day management of the Bank's risks to a number of committees. Risk profiles and capital related matters are reviewed by the Board on a regular basis. After the Restructuring, the scope of the Board had been expanded to govern the consolidated group of SCBHK.

The Board has held four scheduled meetings and two ad-hoc meetings in 2020.

The below committees operate under the direct authority of the Board.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Committees (continued)

(b) *Regional Executive Committee (“REXCO”)*

The REXCO was created on 1 June 2019 with Asia regional scope since 1 January 2021 and supervision responsibility for the overseas subsidiaries. The REXCO meets regularly in relation to the day to day management, operation and control of Asia businesses. It also sub-delegates to various committees certain aspects of the conduct of the business as detailed below. The REXCO includes the Regional Chief Executive Officer, the Regional Chief Financial Officer, the Regional Chief Risk Officer (“CRO”), the country CEOs of the overseas subsidiaries and the regional heads of various businesses and functions in Asia.

The REXCO has held ten meetings in 2020.

(c) *Audit Committee (“AC”)*

The AC reviews, on behalf of the Board, the Bank’s internal financial controls to identify, assess, manage and monitor financial risks and to review the bank’s internal control systems. The AC also reviews the annual and interim financial statements, discusses matters raised by Internal Audit and external auditors and ensures that audit recommendations are implemented accordingly. After the Restructuring, the AC had an expanded scope to oversee GCNA subsidiaries.

The AC comprises three independent non-executive directors (“INEDs” or “INED”) and one non-executive director (“NED”) namely Fong Ching (AC Chairperson and INED), Stephen Robert Eno (INED), Cheng Wai Sun Edward (INED) and Lee Cheuk Kuen Gloria (NED).

The AC has held four scheduled meetings in 2020.

(d) *Board Risk Committee (“BRC”)*

The BRC exercises oversight on behalf of the Board of the overall risk appetite and risk management strategy and its implementation by management of SCBHK as well as SCB China, SCB Korea and SCB Taiwan. The BRC reviews the appropriateness and effectiveness of the Bank’s risk management systems and controls. The BRC also advises and assists the Board in discharging its responsibilities for the Bank’s culture-related matters, including the oversight of effective mechanisms to assess behavioural standards and whistleblowing policy.

The BRC comprises three INEDs and two NEDs namely Stephen Robert Eno (BRC Chairperson and INED), Fong Ching (INED), Tung Lieh Cheung Andrew (INED), Edward Martin Williams (NED) and Lee Cheuk Kuen Gloria (NED).

The BRC has held four scheduled meetings and one ad hoc meeting in 2020.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Board Committees (continued)

(e) Nomination Committee (“NomCo”)

The NomCo is responsible for identifying individuals suitably qualified to become members of the Board or of key senior management, and selecting, or recommending such individuals to the Board. The NomCo reviews succession plans of the Board and key senior management roles. It also reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary.

The NomCo comprises three INEDs and one ED namely Cheng Wai Sun Edward (NomCo Chairman and INED), Stephen Robert Eno (INED), and Tung Lieh Cheung Andrew (INED) and Hung Pi Cheng Benjamin (ED).

The NomCo has held two scheduled meetings in 2020.

(f) Remuneration Committee (“RemCo”)

The RemCo was established on 1 October 2018. It is responsible for reviewing the framework and policies for remuneration and compliance with the applicable laws and regulatory guidelines. The RemCo shall ensure, on behalf of the Board, that the Company’s remuneration policies are consistent with effective risk management.

Following the establishment of the revised SCB HK corporate governance structure in 2019, the RemCo discharges the necessary oversight and control of the subsidiaries remuneration for SCB China, SCB Korea and SCB Taiwan, through:

- (i) Adoption of a detailed and consistent remuneration framework that already exists across the SCB Group where the subsidiaries are all subject to the Group Subsidiary Governance Policy and have adopted Group remuneration policies and procedures similar to those of SCB HK; and
- (ii) Existing subsidiary corporate governance, which are already subject to local guidance, regulations and rules including requirements relating to their independent directors, boards and committees.

The RemCo comprises three INEDs and one ED namely Tung Lieh Cheung Andrew (RemCo Chairman and INED), Fong Ching (INED), Cheng Wai Sun Edward (INED) and Hung Pi Cheng Benjamin (ED).

The RemCo has held two scheduled meetings in 2020.

Appendix I: Corporate Governance Report (continued)**Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)****Organisational and governance structure and policies (continued)*****Sub-committees of EXCO*****(a) *Regional Asset and Liability Committee (“RALCO”)***

The RALCO, appointed by the REXCO, is responsible for the implementation of, and compliance with, the Group’s balance sheet management policies, including those relating to liquidity, capital, interest rate risk in the banking book (“IRRBB”) and recovery and resolution planning requirements. The RALCO comprises of the Regional CEO, the Regional CFO and the Regional CRO as voting members, with attendance from key business and risk management heads, the subsidiary CEOs and Hong Kong CEO. The RALCO also ensures that the SCBHK Group jointly and severally complies, at all times, with the rules and regulations set by the Group’s lead regulator, the Hong Kong Monetary Authority and individual regulators in the countries in which the SCBHK Group has a presence.

(b) *Regional Executive Risk Committee (“RERC”)*

The RERC, through its authority delegated by the REXCO, is responsible for the management of all Principle Risk Types (“PRTs”) in the SCBHK Group other than those delegated to Regional Asset and Liability Committee (“RALCO”) and the Country Pensions Committee (“CPC”). The RERC oversees effective application of the Bank’s Enterprise Risk Management Framework (“ERMF”), recommends risk appetite for approval by the SCBHK Board or Board level committee, approves and reviews new models and risk control parameters including policies, risk exposure limits, or other control levers. The RERC is chaired by the Regional CRO with members including the Regional CEO, the Regional CFO, and the key business and risk management heads. There were in total eight standing RERC meetings held in 2020.

(c) *Pillar III Committee (“Pillar III”)*

The Pillar III, through its authority delegated by the Board, is responsible for reviewing, approving and compliance of the Pillar III disclosure statement in accordance with the Bank’s Disclosure Policy, the Banking (Disclosure) Rules and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules. The Pillar III is chaired by the Regional CFO and the Regional CRO, with members including key finance and risk management heads. There were four meetings held in 2020.

(d) *Hong Kong Management Committee (“HKMANCO”)*

The HKMANCO is responsible for day to day management, operation and control of the Hong Kong business. The HKMANCO meets regularly and sub-delegates to various committees certain aspects of the conduct of the business. The HKMANCO includes the Chief Executive Officer, Hong Kong, the Chief Financial Officer, Hong Kong and the Hong Kong heads of various businesses and functions. During the year, 11 HKMANCO meetings have been held.

Appendix I: Corporate Governance Report (continued)

Disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA (continued)

Organisational and governance structure and policies (continued)

Risk appetite

The details of the Group's risk appetite are disclosed in note 34 to the consolidated financial statements.

Major share ownership and voting rights

The Bank was wholly owned by Standard Chartered PLC.

Related party transactions

All related party transactions during the year ended 31 December 2020 are disclosed in notes 16 and 37 to the consolidated financial statements.

Complex structures

A structured entity is consolidated into the Group's consolidated financial statements where the Group controls the structured entity. For details, please refer to note 17 to the consolidated financial statements.

Appendix II: directors of the Bank's subsidiaries

The names of all directors who have served on the board of the subsidiaries of the Bank during the year and up to 25 February 2021:

Anton, Nigel (resigned on 1 Jan 2021)
Au, Siu Luen
Bagga, Gaurav
Boland, Shelley
Burnett, Peter William (Resigned on 12 Aug 2020)
Chambers, Paul Stuart
Chan, Mignonne Man-jung
Chang, Wea Meng
Chen, Ban-Ren (Benny)
Cheung, Wai Hing
Cheung, Yup Fan
Cho, Jin-Woo
Chua, Meng Keong
Chung, Byung Ho (Resigned on 31 Aug 2020)
Corr, Kieran
Cui, Linying
Daniels, Christopher John
Dubash, Hormusji
Feng, Yan
Fong, Ching (Resigned on 27 Jul 2020 for Mox Bank and resigned on 4 Nov 2020 for SCB China)
Gardiner, Simon William
Gorriz, Michael Andres
Guyen, Deniz
Hardacre, Andrew James
Hau, Yee Mann
Helme, Christopher David
Howard, Jonathan Davey
Huen, Mary Wai Yi
Hui, Hon Hing Susanna
Hung, Pi Cheng Benjamin
Jang, Jee In
Kellaway, Simon Mark
Kim, Darren Suk
Kumar, Dinesh (Resigned on 1 Apr 2020)
Lai, Yan Hong
Lam, Hui Yip
Lee, Eun Hyung
Lee, Hoi Keung
Leow, Jinn Yiun
Lin, Anthony Yuen Tung
Lin, Su-Chen (Kate)
Lyle, Norman (Resigned on 28 Feb 2020)
Lyn, Frank Yee Chon
Ma, Kam Sing Allen
Malik, Shikkoh
McCallum, William
Mengal, Pierre Georges Joseph
Moylan, Peter
Natarajan Madhavamurti, Anjenakumar
Ng, Chi Ming (Resigned on 1 Apr 2020)

Appendix II: directors of the Bank's subsidiaries (continued)

Ng, Dantes Chau Shing
Oh, Jong Nam
Oh, Joo Hyun (Resigned on 31 Mar 2020)
Pandey, Abhishek
Park, Jong Bok
Powell, Gregory John
Puar, Wei Yong Eugene
Puri, Amit Kumar
Rai, Sandeep Singh
Rong, Xiaomin (Resigned on 31 Dec 2020)
Sew, Simon Joseph
Shelley, John Peter
Sohn, Byoung Ok
Subberwal, Samir
Szeto, Ho Yin Jeffrey
Tan, Ming Kiu John
Tanna, Amit Kishorchandra
Tiara Ltd
Upadhyay, Biswajyoti (Resigned on 18 Jun 2020)
Wang, Jun
Wang, Mike Wan Jun
Xie, Wen
Yang, Jeong Woo (Jason)
Yeung, Mei Chun Jeny
Yim, Mei Ling Carolyn (Ceased on 16 February 2021)
Yuan, Wang
Zhang, Xiao Lei