



**Standard Chartered Bank
(Hong Kong) Limited**

**Directors' Report and
Consolidated Financial
Statements**

For the year ended
31 December 2021

Standard Chartered Bank (Hong Kong) Limited

Contents

	Page
Report of the directors	1-2
Independent auditor's report	3-11
Consolidated income statement	12
Consolidated statement of comprehensive income	13
Consolidated statement of financial position	14
Consolidated statement of changes in equity	15
Consolidated cash flow statement	16
Notes to the consolidated financial statements	18-141
Appendix I: corporate governance report	142-151
Appendix II: directors of the Bank's subsidiaries	152-153

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 2021.

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 2021 and the state of the Group’s affairs as at that date are set out in the consolidated financial statements.

During the year ended 31 December 2021, the directors had declared and paid an ordinary dividend of HK\$0.40 per each Class A, B, C and D ordinary share totalling HK\$2,090 million (2020: HK\$0.77 per each Class A, B, C and D ordinary share totalling HK\$4,093 million). Dividends of HK\$328 million (2020: HK\$411 million), HK\$504 million (2020: HK\$nil), HK\$nil (2020: HK\$242 million) and HK\$99 million (2020: HK\$99 million) were paid in respect of the US\$900 million floating rate undated Additional Tier 1 capital securities, the US\$1,000 million fixed 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.

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\$51 million (2020: HK\$38 million).

Share capital

Details of the movements in the share capital of the Bank during the year are set out in note 28 to the consolidated financial statements.

Directors

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

Executive directors

HUNG Pi Cheng Benjamin
Gregory John POWELL (resigned on 22 June 2021)
Saleem RAZVI (appointed on 22 June 2021)
Darren Suk KIM
HUEN Wai Yi Mary
HAU Yee Mann

Non-Executive directors

Edward Martin WILLIAMS, Chairman
LEE Cheuk Kuen Gloria
Michael Andres GORRIZ (resigned on 31 December 2021)
FONG Ching*
Stephen Robert ENO*
CHENG Wai Sun Edward*
TUNG Lieh Cheung Andrew*
LEONG Kwok Kuen Lincoln*(appointed on 4 June 2021)

* *Independent non-executive directors*

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

Report of the directors (continued)

Directors' service contracts

The general term of service contracts of all independent non-executive directors and external non-executive directors shall not exceed three 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, HUNG Pi Cheng Benjamin, Gregory John POWELL, Darren Suk KIM, Saleem RAZVI, HUEN Wai Yi Mary, HAU Yee Mann and 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.

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

HUNG Pi Cheng Benjamin
Director

Hong Kong, 17 February 2022



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 12 to 141, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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



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 loans and advances to customers	
<p>Refer to significant accounting policies in Note 2(k), and disclosures on credit risk and credit impairment in Note 33(a), Note 14 and Note 15 to the consolidated financial statements.</p> <p>As at 31 December 2021, the Group reported total gross advances to customers of HK\$1,202 billion and expected credit loss provisions of HK\$6,248 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 in 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 including the China commercial real estate sector and those 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 that COVID-19 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 management overlays for COVID-19 uncertainty and the China commercial real estate sector. 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. • 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>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> <p>For a sample of individual impairment provisions which were selected based on 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.
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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)

	<ul style="list-style-type: none"> 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, 31 and 34 to the consolidated financial statements.</p> <p>As at 31 December 2021, the Group's financial assets and liabilities measured at fair value amounted to HK\$640.2 billion and HK\$147.5 billion. Financial assets of HK\$14.3 billion and financial liabilities of HK\$3.1 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; and 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>	<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. 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>



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
Impairment of aircraft leasing assets	
<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 2021, the Group owned a portfolio of 87 aircraft with a net carrying value of HK\$22.4 billion, including an impairment provision of HK\$522.8 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>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>	<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, in conjunction with our valuation specialists, 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, 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 • 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>



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
Investment in China Bohai Bank	
<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 2021, the Group reported an investment in an associate, China Bohai Bank (Bohai), with a net carrying amount of HK\$14.9 billion, including an impairment provision of HK\$2.3 billion. The Group's investment in Bohai was 16.26% as at 31 December 2021. 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>There was a deficit between the Group's share of Bohai's market capitalisation as at 31 December 2021 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>	<p>We critically evaluated the facts and circumstances that the Group presented to demonstrate its ability to exercise significant influence over Bohai. 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, in conjunction with our valuation specialists, calculated an independent range of assumptions underlying the value in use calculations, such as the discount rate and long-term growth rate. We evaluated the reasonableness of the future profitability forecasts adopted in the value in use model by reviewing management's assessment, conducting benchmarking analysis of institutional forecasts and testing historical forecasting accuracy. We also 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 in relation to the impact of reasonably possible changes in key assumptions on the carrying values of the investment in Bohai 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)

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 and other IT dependent 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 in an appropriate manner.</p> <p>The possibility of IT application users gaining access privileges beyond those necessary to perform their assigned duties may result in breaches in segregation of duties, including inappropriate manual intervention, unauthorised changes to systems or programmes.</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>

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.



Independent auditor's report

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

(Incorporated in Hong Kong with limited liability)

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.

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

As part of an audit in accordance with HKSAAs, we exercise professional 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.



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)

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

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

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

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

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

Ernst & Young
Certified Public Accountants Hong Kong

17 February 2022

Consolidated income statement For the year ended 31 December 2021

	Note	2021 HK\$'M	2020 HK\$'M
Interest income	4(a)	32,040	36,517
Interest expense	4(b)	(9,294)	(12,939)
Net interest income		22,746	23,578
Fee and commission income		12,644	11,338
Fee and commission expense		(2,434)	(2,251)
Net fee and commission income	4(c)	10,210	9,087
Net trading income	4(d)	8,682	8,034
Other operating income	4(e)	4,335	4,252
		23,227	21,373
Total operating income		45,973	44,951
Staff costs		(16,051)	(13,686)
Premises and equipment		(4,658)	(4,655)
Others		(13,464)	(11,087)
Operating expenses	4(f)	(34,173)	(29,428)
Operating profit before impairment		11,800	15,523
Credit impairment	5(a)	(2,196)	(2,707)
Other impairment	5(b)	(2,158)	(1,238)
Operating profit after impairment		7,446	11,578
Share of profit of an associate		1,360	1,263
Profit before taxation		8,806	12,841
Taxation	6(a)	(2,107)	(2,637)
Profit after taxation		6,699	10,204
Profit/(loss) attributable to:			
– Non-controlling interests		(241)	(158)
– Equity shareholders of the Bank		6,940	10,362
Profit after taxation		6,699	10,204

The notes on pages 18 to 141 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021 HK\$'M	2020 HK\$'M
Profit after taxation	6,699	10,204
Other comprehensive income:		
<u>Items that will not be reclassified to the consolidated income statement:</u>		
Own credit adjustment:		
– Changes in own credit adjustment on financial liabilities designated at fair value through profit or loss	91	48
– Related tax effect	(21)	(11)
Defined benefit plans:		
– Remeasurement of retirement benefit obligations	171	146
– Related tax effect	(20)	(5)
Equity securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the year	65	(75)
Property revaluation credited to reserve	32	–
<u>Items that may be reclassified subsequently to the consolidated income statement:</u>		
Debt securities at fair value through other comprehensive income:		
– Changes in fair value recognised during the year	(2,668)	2,530
– Changes in fair value transferred to the consolidated income statement on disposal	(481)	(604)
– Transfer to the consolidated income statement on fair value hedged items attributable to hedged risk	2,246	(1,153)
– Expected credit loss	16	10
– Share of impact from an associate	53	(287)
– Related tax effect	102	(52)
Cash flow hedges:		
– Changes in fair value recognised during the year	290	(43)
– Transfer to the consolidated income statement on termination of hedging derivatives	29	61
– Related tax effect	(52)	(3)
Exchange differences on translation of foreign operations	(311)	4,032
Other comprehensive income for the year, net of tax	(458)	4,594
Total comprehensive income	6,241	14,798
Total comprehensive income attributable to:		
– Non-controlling interests	(241)	(158)
– Equity shareholders of the Bank	6,482	14,956
Total comprehensive income	6,241	14,798

The notes on pages 18 to 141 form part of these consolidated financial statements.

Consolidated statement of financial position As at 31 December 2021

	Note	2021 HK\$'M	2020 HK\$'M
Assets			
Cash and balances at central banks	9	83,419	66,640
Loans and advances to banks	10	112,146	129,316
Hong Kong SAR Government certificates of indebtedness	11	56,791	56,561
Financial assets at fair value through profit or loss	12	215,747	245,239
Investment securities	13	476,792	521,269
Loans and advances to customers	14(a)	1,196,483	1,091,656
Amounts due from fellow subsidiaries	16	185,689	206,675
Interest in an associate	18	14,902	15,705
Property, plant and equipment	19	33,883	39,600
Goodwill and intangible assets	20	9,948	8,818
Current tax assets		958	–
Deferred tax assets	25	1,304	2,061
Other assets	21	91,197	73,249
		2,479,259	2,456,789
Liabilities			
Hong Kong SAR currency notes in circulation	11	56,791	56,561
Deposits by banks		50,352	54,387
Customer accounts	22	1,820,815	1,736,729
Financial liabilities at fair value through profit or loss	24	112,258	148,226
Debt securities in issue	23	42,987	42,415
Amounts due to immediate holding company	16	43,279	41,750
Amounts due to fellow subsidiaries	16	82,074	102,748
Current tax liabilities		30	2,505
Deferred tax liabilities	25	1,022	897
Other liabilities	26	86,183	90,572
		2,295,791	2,276,790
Equity			
Share capital	28	65,025	65,025
Reserves	29	101,345	97,799
Shareholders' equity		166,370	162,824
Other equity instruments	28	16,733	16,733
Non-controlling interests		365	442
		183,468	179,999
		2,479,259	2,456,789

Approved and authorised for issue by the Board of Directors on 17 February 2022.

HUNG Pi Cheng Benjamin
Director

Saleem RAZVI
Director

The notes on pages 18 to 141 form part of these consolidated financial statements.

Consolidated statement of changes in equity For the year ended 31 December 2021

	Share capital HK\$'M	Own credit adjustment reserve HK\$'M	Cash flow hedge reserve HK\$'M	FVOCI reserve – Debt HK\$'M	FVOCI Equity HK\$'M	Exchange reserve HK\$'M	Other reserves HK\$'M	Retained profits HK\$'M	Sub-total instruments HK\$'M	Other equity HK\$'M	Non- controlling interests HK\$'M	Total HK\$'M
At 1 January 2020	65,025	(92)	(371)	779	264	(9,877)	9,175	91,682	156,585	8,983	436	166,004
Redemption of preference shares ¹	-	-	-	-	-	-	-	(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 ²	-	-	-	-	-	-	-	(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	65,025	(55)	(356)	1,223	189	(5,845)	10,938	91,705	162,824	16,733	442	179,999
Total comprehensive income	-	70	267	(732)	65	(311)	32	7,091	6,482	-	(241)	6,241
Dividend paid ²	-	-	-	-	-	-	-	(3,021)	(3,021)	-	-	(3,021)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	-	85	85	-	-	85
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	-	164	164
Transfer from retained profits	-	-	-	-	-	-	863	(863)	-	-	-	-
At 31 December 2021	65,025	15	(89)	491	254	(6,156)	11,833	94,997	166,370	16,733	365	183,468

¹ 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.

² During the year ended 31 December 2021, the directors had declared and paid an ordinary dividend of HK\$0.40 per each Class A, B, C and D ordinary share totalling HK\$2,090 million (2020: HK\$0.77 per each Class A, B, C and D ordinary share totalling HK\$4,093 million). Dividends of HK\$328 million (2020: HK\$411 million), HK\$504 million (2020: HK\$nil), HK\$nil (2020: HK\$242 million) and HK\$99 million (2020: HK\$99 million) were paid in respect of the US\$900 million floating rate undated Additional Tier 1 capital securities, the US\$1,000 million fixed 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.

The notes on pages 18 to 141 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2021

	2021 HK\$'M	2020 HK\$'M
Operating activities		
Profit before taxation	8,806	12,841
Adjustments for:		
Credit impairment	2,196	2,707
Advances written off net of recoveries	454	54
Unwinding of discount on loan impairment provision	(64)	(69)
Other impairment	2,158	1,238
Depreciation on property, plant and equipment	3,376	3,393
Amortisation of intangible assets	924	777
Net gains on disposal and write off of property, plant and equipment	(659)	(205)
Net losses on revaluation of investment properties	33	137
Share of profit of an associate	(1,360)	(1,263)
Interest expense on subordinated liabilities and other borrowings	1,071	1,338
Interest expense on lease liabilities	146	155
Expense in respect of the defined benefits plans	240	277
Fair value losses transferred from reserves on cash flow hedges	29	61
Exchange translation on subordinated liabilities	50	390
Dilution loss on interest in an associate	-	335
	17,400	22,166
(Increase)/decrease in operating assets:		
Loans and advances to banks with original maturity beyond three months	(4,346)	8,201
Financial assets at fair value through profit or loss	29,804	(117,892)
Investment securities	20,638	(82,697)
Gross loans and advances to customers	(130,427)	(56,381)
Amounts due from fellow subsidiaries	22,460	(42,863)
Other assets	(18,850)	8,050
Increase/(decrease) in operating liabilities:		
Deposits by banks	(4,063)	16,831
Customer accounts	107,140	174,200
Debt securities in issue	572	10,807
Financial liabilities at fair value through profit or loss	(35,877)	51,725
Amounts due to immediate holding company and fellow subsidiaries	(16,514)	28,260
Other liabilities	(5,227)	4,480
Cash (used in)/generated from operations	(17,290)	24,887
Hong Kong income tax paid	(2,963)	(1,389)
Overseas income tax paid	(1,722)	(812)
Net cash (used in)/generated from operating activities	(21,975)	22,686

Consolidated cash flow statement (continued)
For the year ended 31 December 2021

	Note	2021 HK\$'M	2020 HK\$'M
Investing activities			
Payment for purchase of property, plant and equipment		(845)	(7,757)
Payment for purchase of intangible assets		(1,954)	(1,297)
Proceeds from disposal of property, plant and equipment		6,996	3,359
Dividends received from an associate		297	–
Net cash generated from/(used in) investing activities		4,494	(5,695)
Financing activities			
Issuance of subordinated liabilities		20,515	10,228
Issuance of other equity instrument		–	7,750
Contribution from non-controlling interest		164	164
Dividend paid to shareholders of the Bank		(3,021)	(4,845)
Redemption of preference shares		–	(3,880)
Payment of lease liabilities		(1,487)	(1,402)
Interest paid on subordinated liabilities		(1,250)	(1,340)
Redemption of subordinated liabilities		(18,606)	(5,876)
Net cash (used in)/generated from financing activities		(3,685)	799
Net (decrease)/increase in cash and cash equivalents		(21,166)	17,790
Cash and cash equivalents at 1 January		204,162	180,538
Effect of foreign exchange		(780)	5,834
Cash and cash equivalents at 31 December	30(a)	182,216	204,162
Cash flows from operating activities include:			
Interest received		34,528	39,750
Interest paid		11,221	16,238
Dividends received		20	18

The notes on pages 18 to 141 form part of these consolidated financial statements.

Notes to the consolidated financial statements

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 HKFRS/IFRS 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 2021 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 HKFRS/IFRS that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 39.

(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 consolidated 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(c) *Subsidiaries and non-controlling interests (continued)*

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.

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 consolidated 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(e) Intangible assets (continued)

(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.

(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 over each asset's useful life to a maximum of a 10 year time period. 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

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.

i) 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;

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) Financial instruments (continued)

i) Financial assets held at amortised cost and fair value through other comprehensive income (“FVOCI”) (continued)

- 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.

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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) *Financial instruments (continued)*

ii) **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:

- 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.

iii) **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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) Financial instruments (continued)

iii) Financial liabilities held at amortised cost (continued)

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 prespecified 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.

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 consolidated income statement but is amortised or released to the consolidated income statement as the inputs become observable, or the transaction matures or is terminated.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) Financial instruments (continued)

Subsequent measurement

i) 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 consolidated 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.

ii) 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 consolidated income statement. Changes in expected credit losses are recognised in the consolidated 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 consolidated 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 consolidated income statement.

iii) 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 consolidated income statement unless the instrument is part of a cash flow hedging relationship.

iv) 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 consolidated 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 consolidated income statement.

The Group calculates own credit adjustment ("OCA") on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. Own issued note liabilities are discounted utilising spreads as at the measurement date. These spreads consist of a market level of funding component and an idiosyncratic own credit component. Under HKFRS 9/IFRS 9 the change in the OCA component is reported under other comprehensive income. The Group's OCA reserve will increase if its credit standing worsens and, conversely, decrease if its credit standing improves. The Group's OCA reserve will reverse over time as its liabilities mature.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) Financial instruments (continued)

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 consolidated 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 consolidated income statement.

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 consolidated 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(i) Financial instruments (continued)

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.

i) 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 consolidated 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.

ii) 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 consolidated 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.

iii) 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(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.

(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 consolidated 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(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.

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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(k) Impairment (continued)

Measurement (continued)

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.

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.

Instruments

Location of expected credit loss provisions

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

i) 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.

ii) 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(k) Impairment (continued)

Recognition (continued)

ii) Significant increase in credit risk (stage 2) (continued)

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.

iii) 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.

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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(k) *Impairment* (continued)

Recognition (continued)

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.

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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(k) *Impairment* (continued)

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 consolidated 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.

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 consolidated 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 consolidated 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 consolidated 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

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 forborne 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 forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne 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, loans and advances to banks, and amounts due from fellow subsidiaries.

(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 consolidated 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(o) Revenue recognition (continued)

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

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) is recognised using the original effective interest rate applied to the net carrying value. 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 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 consolidated 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.

(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.

The determination of the services performed for the customer, the transaction price, and when the services are completed depends on the nature of the product with the customer. The main considerations on income recognition by product are as follows:

Transaction Banking

The Group recognises fee income associated with transactional trade and cash management at the point in time the service is provided. The Group recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) over the period in which the service is provided.

Payment of fees is usually received at the same time the service is provided. In some cases, letters of credit and guarantees issued by the Group have annual upfront premiums, which are amortised on a straight-line basis to fee income over the year.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(o) Revenue recognition (continued)

(ii) Fees and commissions (continued)

Financial Markets

The Group recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Group to the fee. Fees are usually received shortly after the service is provided.

Syndication fees are recognised when the syndication is complete. Fees are generally received before completion of the syndication, or within 12 months of the transaction date.

Securities services include custody services, fund accounting and administration, and broker clearing. Fees are recognised over the period the custody or fund management services are provided, or as and when broker services are requested.

Wealth Management

Upfront consideration on bancassurance agreements is amortised straight-line over the contractual term. Commissions for bancassurance activities are recorded as they are earned through sales of third-party insurance products to customers. These commissions are received within a short time frame of the commission being earned. Target-linked fees are accrued based on percentage of the target achieved, provided it is assessed as highly probable that the target will be met. Cash payment is received at a contractually specified date after achievement of a target has been confirmed.

Upfront and trailing commissions for managed investment placements are recorded as they are confirmed. Income from these activities is relatively even throughout the period, and cash is usually received within a short time frame after the commission is earned

Retail Products

The Group recognises most income at the point in time the Group is entitled to the fee, since most services are provided at the time of the customer's request.

Credit card annual fees are recognised at the time the fee is received since in most of our retail markets there are contractual circumstances under which fees are waived, so income recognition is constrained until the uncertainties associated with the annual fee are resolved. The Group defers the fair value of reward points on its credit card reward programmes, and recognises income and costs associated with fulfilling the reward at the time of redemption.

(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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(p) *Income tax (continued)*

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.

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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(r) *Employee benefits (continued)*

(ii) *Retirement benefit obligations (continued)*

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the consolidated statement of other comprehensive income in the period they arise. Net interest expense, the cost of accrual of new benefits, and administrative expenses met directly from plan assets are recognised in the income statement in the period in which they were incurred.

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.

(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.

Notes to the consolidated financial statements continued

2. Significant accounting policies (continued)

(s) Translation of foreign currencies (continued)

- 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.

(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 by banks", "Customer accounts" 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 "Loans and advances to customers", "Loans and advances to banks" 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:

- their carrying amounts will be recovered principally through sale;
- they are available for sale in their present condition; and
- 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

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 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

The Group has adopted amendments to HKFRS/IFRS 16 that permit the Group not to assess whether a rent concession granted as a direct consequence of the COVID-19 pandemic is accounted for as a lease modification. In March 2021 the HKICPA/IASB extended the availability of the practical expedient by one year, therefore a rent concession is deemed to be a direct consequence of COVID-19 if and only 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 up to and including 30 June 2022 (this includes the case where the change results in reduced lease payments before this date and increased lease payments after this date); 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.

Interest Rate Benchmark Reform – Phase 2 amendments to HKFRS/IFRS 9, HKAS/IAS 39, HKFRS/IFRS 7, HKFRS/IFRS 4 and HKFRS/IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments 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

Notes to the consolidated financial statements continued

3. Changes in accounting policies (continued)

Interest Rate Benchmark Reform – Phase 2 amendments to HKFRS/IFRS 9, HKAS/IAS 39, HKFRS/IFRS 7, HKFRS/IFRS 4 and HKFRS/IFRS 16 (continued)

- 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

Interest rate benchmark reform

In 2017, the Financial Conduct Authority (“FCA”) announced that it had reached an agreement with LIBOR panel banks to contribute to LIBOR until the end of 2021, after which there would be a transition from LIBORs to risk-free rates (“RFRs”). Since then, there have been further updates, particularly with respect to the cessation date for certain USD LIBOR tenors being deferred from 31 December 2021 to 30 June 2023.

How the Group is managing the transition to alternative benchmark rates

In 2018, the SCPLC Group established its IBOR Transition Programme, with Senior Manager oversight from the SCPLC Group Chief Operating Officer, to manage the transition away from LIBOR. The Programme’s strategic bank-wide approach aims to support clients throughout the transition, whilst ensuring key risks and issues are identified and effectively managed. The Programme is governed by a principal Programme Steering Committee that oversees sixteen workstreams aligned to the Group’s businesses and functions. Within the Programme, separate committee meetings are held for each workstream, with all workstreams having dedicated accountable executives. The Group has a clear alignment with SCPLC Group and other jurisdictions to have a practical transition approach.

Additional governance is supported by regular updates provided to senior risk committees, including the Group Risk Committee, Board Risk Committee and the Corporate, Commercial and Institutional Banking Risk Committee.

From an industry and regulatory perspective, the Group actively participates in and contributes to RFR working groups, industry associations and business forums that focus on different aspects of the transition. The Group monitors the developments at these forums and reflects, then aligns significant decisions into its broader transition plans.

Progress during 2021

Supported by a number of system enhancements, the Group has successfully enabled the transition to RFR products, with end-to-end capabilities developed across a full suite of derivative and cash products. The Group maintained full adherence to all the interim GBP LIBOR cessation milestones set by the Bank of England’s Working Group on Sterling Risk Free Reference Rates. Activity in products referencing RFRs continued to grow throughout the year.

The Group has adhered to the International Swaps and Derivatives Association 2020 IBOR Fallbacks Protocol for all its trading entities and engaged clients that had not adhered to negotiate remediation of non-USD LIBOR contracts by 31 December 2021. As at the end of 2021, remediation of all cleared and uncleared derivative contracts referencing ceasing LIBORs was complete.

Clients with legacy non-USD LIBOR loans were engaged to remediate their contracts via active conversions to alternative rates, fallbacks, or other suitable transition mechanisms. As at end of 2021, all negotiations for drawn non-USD LIBOR exposures were concluded.

The Group is well-positioned to support the transition to Secured Overnight Financing Rate (“SOFR”) for the USD LIBOR transition. The Group is operationally ready and is actively offering SOFR products, in line with the regulatory prohibitions on new USD LIBOR financial instruments. Preparations are also underway to ensure that the Group is ready to remediate legacy USD LIBOR transactions. Over the course of 2021, the Group made considerable progress in automating IBOR related data and increasing process automation remains a priority for 2022.

Frontline and client engagement, including internal and client communications, frontline training, and client webinars were a key feature of the Programme throughout 2021. This allowed for a smooth client experience during the transition of non-USD LIBOR to RFRs, and this approach will continue in 2022 for USD LIBOR. Following an initial USD LIBOR-focused client outreach and internal communications in early December 2021, the Group has already started engaging clients to ascertain their level of readiness, and to secure an indicative timeline for remediation activities.

Notes to the consolidated financial statements continued

3. Changes in accounting policies (continued)

Risks which the Group is exposed to due to IBOR transition

The Group will continue to focus on the remediation required for non-LIBOR benchmarks, and will continue to monitor and manage the inherent risks of the transition, with particular attention being paid to the following:

- Legal risk: LIBOR transition introduces significant legal risks and the Group has taken action to mitigate them where possible. These include risks around contracts that reference USD LIBOR and other LIBORs such as GBP and JPY. Steps have been taken to either insert robust fallbacks or actively convert transactions from the relevant LIBOR to the new RFR-based options.
- Conduct risk: The Group considers conduct risk to be a significant area of non-financial risk management throughout the transition. Our risk appetite statement on conduct risk strives to maintain appropriate outcomes by continuously demonstrating that we are 'Doing the Right Thing' in the way we do business. Accordingly, we recognise that the identification and mitigation of conduct risks arising in respect of the transition are fundamental to the successful transition to new RFR based rates by 30 June 2023. The Group has therefore taken actions in this regard as an integral part of its IBOR Transition Programme, including an extensive outreach programme.
- Operational risk: The Group has recognised the importance of the ongoing identification and management of operational risk as a result of LIBOR transition. The Programme has adopted the Group's existing Operational Risk Framework in its approach to identifying, quantifying, and mitigating the impact of operational risks resulting from the transition.
- Market risk: As trades are transitioned from IBOR to RFR, the business-as-usual metrics, limit structure and controls will continue to apply. Limits for value at risk and market risk sensitivities are in accordance with the Group Risk Appetite Statement. New limits will be set following engagement with the business, to consider client demand and market liquidity in RFR-linked products, as well as the regulatory expectations and interim milestones agreed by the industry.
- Financial and credit risk: The Group set out its view of the impact of LIBOR transition on its Financial risk profile, including its credit risk and Funding profile. At present, the Group has yet to see any material change to any of these categories. However, all of these risks will continue to be monitored as part of the Programme across business and functional workstreams.
- Accounting risk: The Group has identified the Financial instruments that may be affected by accounting issues such as accounting for contractual changes due to IBOR reform, fair value measurement and hedge accounting. We continue to monitor and contribute to industry developments (e.g. IASB consultations) on tax and accounting changes.

As at 31 December 2021 the Group had the following notional principal exposures to interest rate benchmarks that are expected to be subject to interest rate benchmark reform. The Group has excluded financial instruments linked to USD LIBOR maturing before 30 June 2023 as it is assumed these instruments will not require reform since USD LIBOR will no longer be published beyond this date.

IBOR exposures by benchmark as of 31 December 2021	USD LIBOR	Others IBOR	Total IBOR
	HK\$'M	HK\$'M	HK\$'M
Carrying amount of non-derivative financial assets	73,837	–	73,837
Carrying amount of non-derivative financial liabilities	16,372	–	16,372
Notional amount of derivative financial instruments	560,321	1,811	562,132
Contractual amount of contingent liabilities and commitments	18,539	145	18,684

Notes to the consolidated financial statements continued

4. Operating profit

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

(a) Interest income

	2021 HK\$'M	2020 HK\$'M
Interest income arising from financial assets:		
– amortised cost ¹	27,975	30,802
– measured at fair value through other comprehensive income	4,065	5,715
	32,040	36,517

¹ The amount includes fair value losses of HK\$6 million transferred from reserve on cash flow hedges (2020: losses of HK\$22 million).

(b) Interest expense

	2021 HK\$'M	2020 HK\$'M
Interest expense arising from financial liabilities measured at amortised cost ¹	9,148	12,784
Interest expenses on lease liabilities	146	155
	9,294	12,939

¹ The amount includes fair value losses of HK\$23 million transferred from reserve on cash flow hedges (2020: losses of HK\$39 million).

(c) Net fee and commission income

	2021 HK\$'M	2020 HK\$'M
Fee and commission income	12,644	11,338
Of which		
– Financial instruments that are not fair valued through profit or loss	2,813	2,058
– Trust and other fiduciary activities	1,824	1,484
Fee and commission expense	(2,434)	(2,251)
Of which		
– Financial instruments that are not fair valued through profit or loss	(757)	(399)
– Trust and other fiduciary activities	(405)	(298)
Net fee and commission	10,210	9,087

Notes to the consolidated financial statements continued

4. Operating profit (continued)

(c) Net fee and commission income (continued)

	2021 Total HK\$'M	2020 Total HK\$'M
Transaction Banking	1,344	1,185
Financial Markets	1,570	1,784
Wealth Management	5,644	5,115
Retail Products	1,318	994
Others	334	9
Net fees and commission	10,210	9,087

(d) Net trading income

	2021 HK\$'M	2020 HK\$'M
Net gains on financial instruments held for trading	9,092	7,909
Net gains on financial assets mandatorily at fair value through profit or loss other than held for trading	198	427
Net losses on financial instruments designated at fair value through profit or loss	(608)	(302)
	8,682	8,034

(e) Other operating income

	2021 HK\$'M	2020 HK\$'M
Rental income from operating lease assets	3,048	3,620
Dividend income from financial assets at fair value through other comprehensive income	20	18
Net gains on disposal of debt securities at fair value through other comprehensive income	481	604
Net gains on disposal and write-off of property, plant and equipment	659	205
Net gains on disposal of financial instruments measured at amortised cost	5	27
Net losses on revaluation of investment properties (note 19)	(33)	(137)
Dilution loss on interest in an associate	-	(335)
Others	155	250
	4,335	4,252

Notes to the consolidated financial statements continued

4. Operating profit (continued)

(f) Operating expenses

	2021 HK\$'M	2020 HK\$'M
Staff costs		
– contributions to defined contribution plans	552	457
– expenses in respect of the defined benefits plan (note 27(e))	240	277
– net share-based payment expenses	155	146
– salaries and other staff costs	15,104	12,806
Depreciation (note 19)	3,376	3,393
Premises and equipment expense, excluding depreciation	1,282	1,262
Amortisation of other intangible assets (note 20)	924	777
Auditor's remuneration	67	59
Others	12,473	10,251
	34,173	29,428

5. Impairment charges

(a) Credit impairment

	2021 HK\$'M	2020 HK\$'M
Net expected credit loss charges/(releases) on:		
– loans and advances to banks	79	(1)
– loans and advances to customers	2,147	2,576
– debt securities at amortised cost	8	3
– debt securities at fair value through other comprehensive income	16	10
– loan commitments and financial guarantees	(54)	119
	2,196	2,707

(b) Other impairment

	2021 HK\$'M	2020 HK\$'M
Charges for an interest in an associate (note 18)	2,340	–
(Releases)/charges for asset held for sale	(196)	828
Charges for property, plant and equipment (note 19)	25	411
Charges for capitalised software and other intangible assets (note 20)	1	15
Releases for other assets	(12)	(16)
	2,158	1,238

Notes to the consolidated financial statements continued

6. Taxation in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2021 HK\$'M	2020 HK\$'M
Current tax		
Hong Kong profits tax	528	1,297
Overseas taxation	625	1,434
Under/(over)-provision in respect of prior years	109	(104)
	1,262	2,627
Deferred tax (note 25)		
Origination/reversal of temporary differences	818	(234)
Under-provision in respect of prior years	27	244
	845	10
	2,107	2,637

The provision for Hong Kong profits tax for 2021 is calculated at 16.5% (2020: 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.

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

	2021 HK\$'M	2020 HK\$'M
Profit before taxation	8,806	12,841
Notional tax on profit before taxation, calculated at Hong Kong profits tax rate of 16.5%	1,453	2,119
Tax effect of non-deductible expenses	572	480
Tax effect of non-taxable revenue	(560)	(649)
Under-provision in prior years	136	140
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	410	479
Others	96	68
Actual tax expense	2,107	2,637

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:

	2021 HK\$'M	2020 HK\$'M
Fees	4	4
Short-term employment benefits	49	45
Post-employment benefits	2	1
Equity compensation benefits	18	9
	73	59

Notes to the consolidated financial statements continued

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

Following the Group's change in organisational structure, effective 1 January 2021, the composition of the reportable segments has been amended to reflect this new structure.

As such, there are two new reportable business segments;

- Corporate & Institutional Banking ("CIB") and Commercial Banking ("CB") have been combined to form Corporate, Commercial & Institutional Banking ("CCIB"), serving larger companies and institutions.

Corporate, Commercial and Institutional Banking supports clients with their transaction banking, financial markets, corporate finance and borrowing needs. The Group provides solutions in some of the world's fastest-growing economies and most active trade corridors. Our clients include governments, banks, investors and local and large corporations.

- Retail Banking ("RB") and Private banking ("PB") have been combined to form Consumer, Private & Business Banking ("CPBB") serving individual and business banking clients.

Consumer, Private and Business Banking serves individuals and small businesses, with a focus on affluent segment. The Group provides digital banking services with a human touch to our clients, with services spanning across deposits, payments, financing products and Wealth Management. Private Banking offers a full range of investment, credit and wealth planning products to grow, and protect, the wealth of high net-worth individuals. The Group also supports clients with their business banking needs.

Activities not directly related to a client are included in Central & Other items. These mainly include Corporate Centre costs, treasury activities, and certain strategic investments.

The changes above require comparative periods to be restated.

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.

(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

	2021			
	Corporate, Commercial & Institutional Banking ^{1,2} HK\$'M	Consumer, Private & Business Banking HK\$'M	Central & Other Items HK\$'M	Consolidated Total HK\$'M
Operating income				
– Net interest income	7,965	13,602	1,048	22,615
– Other operating income	12,582	11,324	980	24,886
	20,547	24,926	2,028	47,501
Operating expenses	(11,787)	(18,145)	(415)	(30,347)
Operating profit before impairment	8,760	6,781	1,613	17,154
Impairment charges	(1,490)	(903)	(2,360)	(4,753)
Share of profit of an associate	–	–	1,360	1,360
Profit before taxation	7,270	5,878	613	13,761
At 31 December 2021				
Segment assets	911,640	720,714	743,413	2,375,767
Segment liabilities	1,129,651	913,505	157,885	2,201,041

Notes to the consolidated financial statements continued

8. Segmental reporting (continued)

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

Client segments (continued)

	2020 (restated)			Consolidated Total HK\$'M
	Corporate, Commercial & Institutional Banking ^{1,2} HK\$'M	Consumer, Private & Business Banking HK\$'M	Central & Other Items HK\$'M	
Operating income				
– Net interest income	9,023	14,662	(1,128)	22,557
– Other operating income	12,326	10,251	868	23,445
	21,349	24,913	(260)	46,002
Operating expenses	(11,175)	(17,133)	(247)	(28,555)
Operating profit before impairment	10,174	7,780	(507)	17,447
Impairment charges	(1,510)	(1,621)	(34)	(3,165)
Share of profit of an associate	–	–	1,263	1,263
Profit before taxation	8,664	6,159	722	15,545
At 31 December 2020				
Segment assets	867,833	685,430	774,449	2,327,712
Segment liabilities	1,128,493	899,058	150,339	2,177,890

¹ Operating expenses in the Corporate, Commercial & Institutional Banking segment included depreciation charges of HK\$1,462 million for commercial aircraft leased to customers under operating leases (2020: HK\$1,523 million).

² The Group has decided to exit the vessels leasing business, the Corporate, Commercial & Institutional Banking segment does not include results for commercial vessels leased to customers amounting to profit before taxation of HK\$405 million (2020: losses HK\$321 million). The results of vessels leasing business are included in reconciliation presented in Note 8(b).

Geographical segments

	2021				Consolidated Total HK\$'M
	Hong Kong HK\$'M	Mainland China HK\$'M	Taiwan HK\$'M	Korea HK\$'M	
Operating income					
– Net interest income	11,079	4,576	1,352	5,608	22,615
– Other operating income	15,618	3,870	2,439	2,959	24,886
	26,697	8,446	3,791	8,567	47,501
Operating expenses	(15,600)	(5,944)	(2,803)	(6,000)	(30,347)
Operating profit before impairment	11,097	2,502	988	2,567	17,154
Impairment charges	(1,950)	(2,719)	15	(99)	(4,753)
Share of profit of an associate	–	1,360	–	–	1,360
Profit before taxation	9,147	1,143	1,003	2,468	13,761
At 31 December 2021					
Segment assets	1,378,574	295,538	176,888	524,767	2,375,767
Segment liabilities	1,298,047	277,831	169,817	455,346	2,201,041

Notes to the consolidated financial statements continued

8. Segmental reporting (continued)

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

Geographical segments (continued)

	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
At 31 December 2020					
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

(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities

	2021 HK\$'M	2020 HK\$'M
Operating Income		
Reportable segment revenue	47,501	46,002
Income relating to financial market products	(2,820)	(2,720)
Cost of free funds	1,011	1,753
Others	281	(84)
Total operating income	45,973	44,951
	2021 HK\$'M	2020 HK\$'M
Profit before taxation		
Reportable segment profit before taxation	13,761	15,545
Income relating to financial market products	(2,820)	(2,720)
Cost of free funds	1,011	1,753
Reallocation of impairment charges	214	69
Restructuring	(1,578)	(1,051)
Others	(1,782)	(755)
Profit before taxation	8,806	12,841

Notes to the consolidated financial statements continued

8. Segmental reporting (continued)

(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities (continued)

	2021 HK\$'M	2020 HK\$'M
Assets		
Reportable segment assets	2,375,767	2,327,712
Assets of group companies not included in consolidated total assets	(6,700)	(7,409)
Amounts due from fellow subsidiaries	227,867	264,898
Others	(117,675)	(128,412)
Total Assets	2,479,259	2,456,789
Liabilities		
Reportable segment liabilities	2,201,041	2,177,890
Liabilities of group companies not included in consolidated total liabilities	(1,028)	(1,241)
Amounts due to immediate holding company and fellow subsidiaries	148,649	157,761
Others	(52,871)	(57,620)
Total Liabilities	2,295,791	2,276,790

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

	2021 HK\$'M	2020 HK\$'M
Cash in hand	4,582	5,326
Balances with central banks	78,837	61,314
	83,419	66,640

10. Loans and advances to banks

(a) Loans and advances to banks

	2021 HK\$'M	2020 HK\$'M
Gross loans and advances to banks		
– maturing one month	75,929	64,639
– maturing one month to one year	34,898	51,392
– maturing one year to five years	1,424	13,311
	112,251	129,342
Less: Expected credit loss provision (note 15)	(105)	(26)
	112,146	129,316

Notes to the consolidated financial statements continued

10. Loans and advances to banks (continued)

(b) Impaired loans and advances to banks

	2021 HK\$'M	2020 HK\$'M
Gross impaired loans and advances to banks	178	-
Less:		
Stage 3 expected credit loss provision (note 15)	(88)	-
	90	-
<i>Gross impaired loans and advances to banks as a % of gross loans and advances to banks</i>	0.16%	0.00%

There is no collateral held against impaired loans and advances to banks.

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

	2021			Total HK\$'M
	Trading assets HK\$'M	Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M	Financial assets designated at fair value through profit or loss HK\$'M	
Debt securities:				
- Treasury bills	16,419	-	-	16,419
- Certificates of deposit held	7,810	-	-	7,810
- Other debt securities	88,818	754	1,256	90,828
	113,047	754	1,256	115,057
Equity securities	9,264	330	-	9,594
Loans and advances to customers and banks	24,768	31,893	-	56,661
Positive fair values of derivatives	34,435	-	-	34,435
	181,514	32,977	1,256	215,747

Notes to the consolidated financial statements continued

12. Financial assets at fair value through profit or loss (continued)

	2020			Total HK\$'M
	Trading assets HK\$'M	Non-trading financial assets mandatorily at fair value through profit or loss HK\$'M	Financial assets designated at fair value through profit or loss HK\$'M	
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
	100,188	808	1,985	102,981
Equity securities	10,317	419	–	10,736
Loans and advances to customers and banks	20,972	40,035	–	61,007
Positive fair values of derivatives	70,515	–	–	70,515
	201,992	41,262	1,985	245,239

13. Investment securities

	2021 HK\$'M	2020 HK\$'M
At fair value through other comprehensive income		
Debt securities		
– Treasury bills	47,172	80,148
– Certificates of deposit held	47,463	71,210
– Other debt securities	286,470	329,836
	381,105	481,194
Equity shares	1,265	978
	382,370	482,172
At amortised cost		
Debt securities		
– Treasury bills	2,456	1,213
– Other debt securities	91,989	37,901
Less: Expected credit loss provision (note 15)	(23)	(17)
	94,422	39,097
	476,792	521,269

Notes to the consolidated financial statements continued

14. Loans and advances to customers

(a) Loans and advances to customers

	2021 HK\$'M	2020 HK\$'M
Gross loans and advances to customers	1,198,251	1,094,573
Trade bills	4,480	2,634
	1,202,731	1,097,207
Less: Expected credit loss provision (note 15)	(6,248)	(5,551)
	1,196,483	1,091,656

(b) Impaired loans and advances to customers

	2021 HK\$'M	2020 HK\$'M
Gross impaired loans and advances to customers	9,160	7,327
Less:		
Stage 3 expected credit loss provision (note 15)	(3,523)	(3,050)
	5,637	4,277
<i>Gross impaired loans and advances to customers as a % of gross loans and advances to customers</i>	0.76%	0.67%
Fair value of collateral held against the covered portion of impaired loans and advances to customers	3,077	3,189
Covered portion of impaired loans and advances to customers	2,008	2,239
Uncovered portion of impaired loans and advances to customers	7,152	5,088

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

15. Analysis of expected credit loss provisions on financial instruments by stage

	2021			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
- Loans and advances to banks (note 10)	13	4	88	105
- Loans and advances to customers (note 14)	1,608	1,117	3,523	6,248
- Debt securities at amortised cost (note 13)	23	-	-	23
- Debt securities at fair value through other comprehensive income ¹	45	-	-	45
- Other assets	-	-	2	2
- Loan commitments and financial guarantees (note 26)	172	63	-	235
	1,861	1,184	3,613	6,658

Notes to the consolidated financial statements continued

15. Analysis of expected credit loss provisions on financial instruments by stage (continued)

	2020			Total HK\$'M
	Stage 1 HK\$'M	Stage 2 HK\$'M	Stage 3 HK\$'M	
Expected credit loss provision on:				
– Loans and advances to banks (note 10)	26	–	–	26
– Loans and 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
	1,805	1,056	3,056	5,917

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:

	2021 HK\$'M	2020 HK\$'M
Operating Income	441	991
Operating expenses	6,383	3,678

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:

	2021 HK\$'M	2020 HK\$'M
Amounts due from fellow subsidiaries:		
Loans and advances to banks	138,178	140,259
Financial assets at fair value through profit or loss		
– Positive fair values of derivatives	36,900	56,143
Investment securities	5,200	5,171
Other assets		
– Others	5,411	5,102
	185,689	206,675

	2021 HK\$'M	2020 HK\$'M
Amounts due to fellow subsidiaries		
Deposits by banks	29,889	22,925
Financial liabilities at fair value through profit or loss		
– Negative fair values of derivatives	34,856	63,950
Subordinated liabilities issued by subsidiaries of the Bank ¹ :		
– US\$200 million 4.5% fixed rate subordinated debt 2024	1,560	1,573
– KRW600 billion 2.65% fixed rate subordinated debt 2029	3,933	4,486
Other liabilities		
– Others	11,836	9,814
	82,074	102,748

Notes to the consolidated financial statements continued

16. Amounts due from/to fellow subsidiaries and amounts due to immediate holding company (continued)

	2021 HK\$'M	2020 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
– US\$450 million floating rate Tier 2 notes 2029	3,508	3,489
– US\$250 million floating rate Tier 2 notes 2031	1,949	1,938
– EUR1,000 million 1.20% fixed rate Tier 2 notes 2031	8,678	–
<i>Non-capital Loss-Absorbing Capacity (“LAC”) debt instruments:</i>		
– US\$1,000 million floating rate notes 2022	–	7,753
– US\$600 million floating rate notes 2022	–	4,651
– US\$600 million floating rate notes 2023	4,678	4,651
– US\$200 million 3.15% fixed rate note 2023	1,559	1,550
– US\$600 million 1.32% fixed rate notes 2023	4,678	4,651
– US\$1,500 million 1.46% fixed rate notes 2027	11,586	–
– HK\$1,081 million floating rate notes 2023	1,081	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	4,891	4,741
Financial liabilities at fair value through profit or loss		
– Negative fair values of derivatives	422	973
Other liabilities		
– Others	249	70
	43,279	41,750

¹ Interest expenses on these subordinated liabilities amounted to HK\$1,071 million (2020: HK\$978 million)

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

	2021 HK\$'M	2020 HK\$'M
Financial guarantees and other credit related contingent liabilities	2,451	2,907
Loan commitments and other credit related commitments	113,859	84,315

17. Investments in subsidiaries of the Bank and interests in structured entities

(a) Investments in subsidiaries

	2021 HK\$'M	2020 HK\$'M
Investment cost	51,236	48,503
Less: accumulated impairment provision	(656)	(632)
	50,580	47,871

Notes to the consolidated financial statements continued

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.

Name of company	Place of incorporation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Bank	Principal activity
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.

	2021 HK\$'M	2020 HK\$'M
Aircraft and ship leasing	27,285	34,895
Assets – backed securitisation	5,273	5,180

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 2021, investment securities amounting to HK\$275 million (2020: HK\$2,103 million) are recognised in the financial statements relating to variable interests held in unconsolidated structured entities.

Notes to the consolidated financial statements continued

18. Interest in an associate

	2021 HK\$'M	2020 HK\$'M
Share of net assets	17,242	15,705
Less: impairment provision	(2,340)	–
	14,902	15,705

Name of associate	Place of establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest	Principal activity
China Bohai Bank Company Limited (“Bohai”)	The People’s Republic of China	17,762 million 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.

The Group’s investment in Bohai is less than 20% but it is considered to be an associate because of the significant influence the Group is able to exercise over the management of Bohai and its financial and operating policies. This influence is evidenced largely through the representation on the Board of Directors in Bohai and the provision of technical expertise to Bohai. The Group applies the equity method of accounting for its investment in Bohai.

For the year ended 31 December 2021, the Group has recognised Bohai’s results through 30 September 2021 (12 months of earnings, including the fourth quarter of 2020). Bohai has a statutory year end of 31 December, but publishes their results after the Group. The Group will therefore continue on a three-month lag in recognising its share of Bohai’s earnings going forward.

If the Group did not have significant influence in Bohai, the investment would be carried at fair value rather than the current carrying value.

Impairment testing

At 31 December 2021, the carrying amount of the Group’s investment in Bohai was greater than its fair value based on the Group’s shareholding and Bohai’s quoted share price. As a result, the Group assessed its investment in Bohai for impairment and concluded an impairment loss of HKD\$2,340million (note 5(b)) was required due to the shortfall between the value-in-use (“VIU”) and the carrying amount. The decrease in recoverable amount of Bohai is primarily a result of lower forecast cash flows due to the latest published results being weaker than expected.

	2021 HK\$'M	2020 HK\$'M
VIU	14,902	22,821
Carrying amount: pre-impairment ²	17,242	15,705
Fair value	8,666	14,643

² The above represents the Group’s 16.26% share of net assets less other equity instruments the Group does not hold

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 the following primary inputs:

- short to medium term cash flow projections based on management’s best estimates of future earnings available to ordinary shareholders. These cashflows have been determined with reference to the latest published financial results and historical performance;
- a discount rate based upon a capital asset pricing model (“CAPM”) calculation for Bohai representing the risk-free rate and company risk premium. Management compares this CAPM against external sources and the cost of equity used for transactions in the China market;

Notes to the consolidated financial statements continued

18. Interest in an associate (continued)

Basis of recoverable amount (continued)

- a long-term sustainable growth rate, based upon a long term China GDP rate which is used to extrapolate in perpetuity those expected short to medium term earnings to derive a terminal value; and
- an estimation of risk weighted assets (“RWA”) and RWA growth to determine a capital maintenance cash flow haircut. This haircut takes into account movements in RWAs and the total capital required, including required retained earnings over time to meet the minimum regulatory capital ratio.

From the estimated cash flows, a capital maintenance haircut is taken in order for Bohai to meet its target regulatory capital requirement over the forecast period. This haircut takes into account movements in RWA and the total capital required, including retained earnings to meet the target capital ratios.

The key assumptions used in the VIU calculation:

	2021 %	2020 %
Pre-tax discount rate	14.83	12.75
Post-tax discount rate	11.00	10.00
Long-term growth rate	4.75	5.00
Long-term RWA growth rate	4.75	5.00
Minimum regulatory capital ratio	7.50	7.50

Carrying amount pre-impairment HK\$M	Base case				Sensitivities - 2021									
	VIU HK\$M	Headroom HK\$M	Pre-tax discount rate		GDP		Discount rate		Cash flows		RWA		Combined ³ RWA and Cash flows	
			rate %	GDP %	+1% HK\$M	-1% HK\$M	+1% HK\$M	-1% HK\$M	+10% HK\$M	-10% HK\$M	+10% HK\$M	-10% HK\$M	+10% HK\$M	-10% HK\$M
17,242	14,902	(2,340)	14.83	4.75	(390)	(3,758)	(4,140)	140	70	(4,748)	(4,779)	94	(2,370)	(2,315)

³ The movement in RWAs has historically been well correlated to cashflow growth. This can be seen in the combined RWA and cashflow scenarios in the sensitivity table.

To improve the headroom to zero would require, on a single assumption change basis, an increase in cashflow by 9.71%, decrease in discount rate by 0.95%, increase in GDP growth rate by 1.16% or decrease in RWA's by 9.6%.

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:

	30 September 2021 HK\$'M	30 September 2020 HK\$'M
Assets	1,951,703	1,569,861
Liabilities and other equity instrument not held by the Group	(1,845,658)	(1,473,281)
Net assets	106,045	96,580
Operating income	27,364	26,943
Profit after taxation	7,280	7,364
Other comprehensive income	450	(996)

Notes to the consolidated financial statements continued

19. Property, plant and equipment

2021	Buildings and leasehold land held for own use HK\$'M	Equipment furniture & fixtures HK\$'M	Operating lease assets as lessor HK\$'M	Operating lease assets as lessee ¹ HK\$'M	Investment properties HK\$'M	Total HK\$'M
Cost or valuation:						
At 1 January 2021	9,082	3,475	34,651	5,718	597	53,523
Additions	510	335	-	2,278	-	3,123
Disposals and write-offs	(535)	(105)	(5,677)	(261)	(46)	(6,624)
Reclassifications	(69)	59	-	-	10	-
Transfers to assets held for sale	(60)	-	-	-	-	(60)
Elimination of accumulated depreciation						
on revalued property	(6)	-	-	-	-	(6)
Fair value adjustments ²	-	-	-	-	(1)	(1)
Exchange adjustment	(324)	(24)	173	35	-	(140)
At 31 December 2021	8,598	3,740	29,147	7,770	560	49,815
Representing						
Cost or valuation:	8,598	3,740	29,147	7,770	-	49,255
Valuation	-	-	-	-	560	560
	8,598	3,740	29,147	7,770	560	49,815
Accumulated depreciation and impairment:						
At 1 January 2021	2,787	2,604	6,240	2,292	-	13,923
Charge for the year (note 4(f))	224	322	1,462	1,368	-	3,376
Impairments (note 5(b))	-	1	(1)	25	-	25
Attributable to assets sold or written off	(130)	(102)	(967)	(176)	-	(1,375)
Attributable to transfers to assets held for sale	(20)	-	-	-	-	(20)
Elimination of accumulated depreciation						
on revalued property	6	-	-	-	-	6
Exchange adjustment	(63)	(15)	35	40	-	(3)
At 31 December 2021	2,804	2,810	6,769	3,549	-	15,932
Net Book Value						
At 31 December 2021	5,794	930	22,378	4,221	560	33,883

Notes to the consolidated financial statements continued

19. Property, plant and equipment (continued)

2020	Buildings and leasehold land held for own use HK\$'M	Equipment furniture & fixtures HK\$'M	Operating lease assets as lessor HK\$'M	Operating lease assets as lessee ¹ HK\$'M	Investment properties HK\$'M	Total 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 ²	-	-	-	-	(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 or valuation:	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 year (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 33(e)(i).

² Changes in fair value of the investment properties were recognised as follows:

	2021 HK\$'M	2020 HK\$'M
Decrease in valuation charged to consolidated income statement (Note 4 (e))	(33)	(137)
Increase in valuation credited to other comprehensive income upon reclassification to investment property	32	-
	(1)	(137)

Notes to the consolidated financial statements continued

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 87 commercial aircraft, of which 86 are narrow-body and 1 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 2021, these assets had a net book value of HK\$22,378 million (31 December 2020: HK\$28,411 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 2021 is approximately 5 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:

	2021 HK\$'M	2020 HK\$'M
Within 1 year	2,281	2,971
After 1 year but within 5 years	6,210	8,986
After 5 years	2,808	5,338
	11,299	17,295

(b) Investment properties

	2021 HK\$'M	2020 HK\$'M
Freehold outside Hong Kong, at fair value	560	597

The investment property outside Hong Kong was revalued as at 31 December 2021 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 properties are 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

20. Goodwill and intangible assets

	Capitalised software and other intangible assets HK\$'M	Goodwill HK\$'M	Total HK\$'M
Cost:			
At 1 January 2021	7,808	5,983	13,791
Additions	1,954	-	1,954
Disposals and write-offs	(62)	-	(62)
Exchange adjustment	(161)	160	(1)
At 31 December 2021	9,539	6,143	15,682
Accumulated amortisation:			
At 1 January 2021	4,973	-	4,973
Charge for the year (note 4(f))	924	-	924
Impairments (note 5(b))	1	-	1
Attributable to intangible assets sold or written off	(51)	-	(51)
Exchange adjustment	(113)	-	(113)
At 31 December 2021	5,734	-	5,734
Carrying amount:			
At 31 December 2021	3,805	6,143	9,948

During 2021, the Group has reassessed the useful economic life for software assets to reflect the period over which the assets are expected to be available for use by the Group. As a result of this change in estimate, the Group has recorded a decrease in software amortisation of approximately HK\$109 million in 2021.

	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
Impairments (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

Notes to the consolidated financial statements continued

20. Goodwill and intangible assets (continued)

Goodwill**Change in cash generating-units (CGUs)**

Goodwill is allocated to CGUs, which are considered the level at which goodwill is managed and which generate independent cash flows. At year-end 2021, the Group had two global CGUs representing Corporate, Commercial & Institutional Banking (“CCIB”) and Private Banking (“PB”), along with country CGUs representing Retail Banking (“RB”) for each of Hong Kong and Taiwan.

Following the changes in the Group’s organisational structure as described in Note 8 – Segmental Reporting which has resulted in two new business segments, CCIB and CPBB, the CGUs have changed. Goodwill relating to Commercial Banking (“CB”) (HK\$1,578 million), which was previously allocated to Taiwan CGU, has been reallocated to the global CCIB CGU. The CB goodwill has been allocated on a relative value basis with reference to the ratio of RB and CB risk-weighted assets in Taiwan at 1 January 2021. Comparative figures have been restated accordingly.

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 2026. 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.

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.

	2021				2020 (restated)			
	Goodwill HK\$'M	Pre-tax discount rate percent	Post-tax discount rate percent	Long- term forecast GDP growth rates percent	Goodwill HK\$'M	Pre-tax discount rate percent	Post-tax discount rate percent	Long- term forecast GDP growth rates percent
Cash generating unit								
Country CGUs – Retail Banking								
Hong Kong	611	10.63	9.30	2.50	611	11.18	9.71	2.65
Taiwan ¹	2,686	10.44	8.60	2.00	2,565	10.60	8.58	2.13
Global CGUs								
Private Banking	118	10.63	9.30	2.50	118	11.18	9.71	2.65
Corporate, Commercial and Institutional Banking ¹	2,728	11.03	9.30	2.98	2,689	11.86	10.00	3.63
	6,143				5,983			

¹ Following the Group’s change in organisational structure, there has been an integration of segments (CIB and CB to CCIB and PB and RB to CPBB). Prior periods have been restated.

Notes to the consolidated financial statements continued

21. Other assets

	2021 HK\$'M	2020 HK\$'M
Prepayments and accrued income	6,484	5,977
Sundry debtors	8,920	4,976
Acceptances and endorsements	14,638	13,811
Unsettled trades and others	59,315	45,739
Assets held for sale ^{1,2}	1,840	2,746
	91,197	73,249

¹ As at 31 December 2021, assets held for sale mainly included vessels and property.

² As at 31 December 2020, assets held for sale included vessels as the Group has decided to exit the vessels leasing business.

22. Customer accounts

	2021 HK\$'M	2020 HK\$'M
Current accounts	416,512	393,007
Savings accounts	983,778	934,123
Time and other deposits	420,525	409,599
	1,820,815	1,736,729

23. Debt securities in issue

	2021 HK\$'M	2020 HK\$'M
Certificates of deposit	10,912	12,869
Other debt securities in issue	32,075	29,546
	42,987	42,415

24. Financial liabilities at fair value through profit or loss

	2021 HK\$'M	2020 HK\$'M
Trading liabilities		
– Short position in securities	28,926	20,030
– Negative fair values of derivatives	39,967	83,932
	68,893	103,962
Financial liabilities designated at fair value through profit or loss:		
– Structured deposits from banks and customers	28,189	25,750
– Debt securities issued	6,748	8,408
– Liabilities under sale and repurchase agreement	8,428	10,106
	43,365	44,264
	112,258	148,226

Notes to the consolidated financial statements continued

24. Financial liabilities at fair value through profit or loss (continued)

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.

Financial liabilities designated at fair value through profit or loss

	2021 HK\$'M	2020 HK\$'M
Carrying balance aggregate fair value	43,365	44,264
Amount contractually obliged to repay at maturity	44,017	43,997
Difference between aggregate fair value and contractually obliged to repay at maturity	(652)	267
Cumulative change in fair value accredited to credit risk difference	19	(72)

The net fair value loss on financial liabilities designated at fair value through profit or loss was HK\$608 million for the year ended 31 December 2021 (2020: net loss of HK\$302 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:

	Depreciation allowances in excess of related depreciation HK\$'M	Impairment losses on financial assets HK\$'M	Financial assets at fair value through other comprehensive income HK\$'M	Own credit adjustments HK\$'M	Tax Loss HK\$'M	Others HK\$'M	Total HK\$'M
At 1 January 2020	(1,345)	885	(128)	26	1,033	753	1,224
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	(1,692)	959	(188)	17	887	1,181	1,164
Charge to consolidated income statement (note 6(a))	(94)	(111)	–	–	(95)	(545)	(845)
Release/(charge) to reserves	–	–	102	(21)	–	(72)	9
Others	23	32	2	(1)	(95)	(7)	(46)
At 31 December 2021	(1,763)	880	(84)	(5)	697	557	282

Analysed by:

	2021 HK\$'M	2020 HK\$'M
Net deferred tax asset recognised on the consolidated statement of financial position	1,304	2,061
Net deferred tax liability recognised on the consolidated statement of financial position	(1,022)	(897)
	282	1,164

Notes to the consolidated financial statements continued

25. Taxation in the consolidated statement of financial position (continued)

Deferred tax assets and liabilities: (continued)

Unrecognised deferred tax

	2021 HK\$'M	2020 HK\$'M
No account has been taken of the following potential deferred tax assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries and associates	(1,992)	(1,811)
Tax losses	6,293	6,736
Held-over gains on incorporation of overseas branches	(188)	(143)

The aggregate temporary differences relating to unrecognised deferred tax arising on unremitted earnings from overseas subsidiaries and associates at the balance sheet date was (HK\$32,060) million (31 December 2020: (HK\$29,377) million), the gross value of the unrecognised tax losses (including capital losses) was HK\$26,558 million (31 December 2020: HK\$28,184 million), and the gross value of held over gains on incorporation of overseas branches was (HK\$750 million) (31 December 2020: (HK\$752 million)).

26. Other liabilities

	2021 HK\$'M	2020 HK\$'M
Accruals and deferred income	9,151	8,692
Provision for liabilities and charges	549	417
Acceptances and endorsements	14,638	13,810
Expected credit loss provision on loan commitments and financial guarantees (note 15)	235	286
Lease liabilities	4,433	3,613
Unsettled trades and others	57,177	63,754
	86,183	90,572

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.

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.

Notes to the consolidated financial statements continued

27. Employee retirement benefits (continued)

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

	2021				2020			
	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	
Fair value of plan assets	1,984	2,077	-	4,061	1,956	2,355	-	4,311
Present value of obligations	(1,706)	(2,341)	(57)	(4,104)	(1,948)	(2,479)	(60)	(4,487)
Net asset/(liability) recognised in the consolidated statement of financial position (included in "Other assets/Other liabilities")	278	(264)	(57)	(43)	8	(124)	(60)	(176)

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

	2021				2020			
	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	
At 1 January	(1,948)	(2,479)	(60)	(4,487)	(1,916)	(2,140)	(56)	(4,112)
Benefits paid	201	403	-	604	202	71	-	273
Current service cost	(72)	(204)	(4)	(280)	(74)	(199)	(3)	(276)
Interest cost	(7)	(48)	(1)	(56)	(33)	(41)	(1)	(75)
Settlement costs and transfers impact	-	29	8	37	-	11	-	11
Actuarial gain/(loss) – from experience	45	(19)	(2)	24	25	(46)	3	(18)
Actuarial gain/(loss) – from assumptions	75	(154)	(3)	(82)	(152)	13	1	(138)
Exchange rate adjustment	-	131	5	136	-	(148)	(4)	(152)
At 31 December	(1,706)	(2,341)	(57)	(4,104)	(1,948)	(2,479)	(60)	(4,487)

(c) Movements in the fair value of plan assets:

	2021				2020			
	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	
At 1 January	1,956	2,355	-	4,311	1,858	1,936	-	3,794
Contributions	20	198	-	218	22	262	-	284
Benefits paid	(201)	(403)	-	(604)	(202)	(71)	-	(273)
Interest income	7	52	-	59	32	42	-	74
Settlement costs and transfers impact	-	-	-	-	-	(11)	-	(11)
Return on plan assets, excluding amounts included in interest income	202	25	-	227	246	56	-	302
Exchange rate adjustment	-	(150)	-	(150)	-	141	-	141
At 31 December	1,984	2,077	-	4,061	1,956	2,355	-	4,311

Notes to the consolidated financial statements continued

27. Employee retirement benefits (continued)

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

	2021				2020			
	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	
At 1 January	8	(124)	(60)	(176)	(58)	(204)	(56)	(318)
Contributions	20	198	-	218	22	262	-	284
Current service cost	(72)	(204)	(4)	(280)	(74)	(199)	(3)	(276)
Net interest income/(cost)	-	4	(1)	3	(1)	1	(1)	(1)
Settlement costs and transfers impact	-	29	8	37	-	-	-	-
Return on plan assets, excluding amounts included in interest income	202	25	-	227	246	56	-	302
Actuarial gain/(loss) – from experience	45	(19)	(2)	24	25	(46)	3	(18)
Actuarial gain/(loss) – from assumptions	75	(154)	(3)	(82)	(152)	13	1	(138)
Exchange rate adjustment	-	(19)	5	(14)	-	(7)	(4)	(11)
At 31 December ¹	278	(264)	(57)	(43)	8	(124)	(60)	(176)

¹ The deficit total of HK\$43 million (2020: HK\$176 million) is made up of plans in deficit of HK\$397 million (2020: HK\$396 million) net of plans in surplus with assets totalling HK\$354 million (2020: HK\$220 million)

The weighted average duration of the defined benefit obligation as at 31 December 2021 for HK Scheme is 5 years (2020: 6 years) and overseas plan is 8 years (2020: 8 years).

The Group's expected contribution to its defined benefit pension in 2022 is HK\$228 million.

(e) *Amounts recognised in the consolidated income statement for the year (note 4(f))*

	2021				2020			
	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	
Current service cost	72	204	4	280	74	199	3	276
Settlement costs and transfers impact	-	(29)	(8)	(37)	-	-	-	-
Net interest (income)/cost	-	(4)	1	(3)	1	(1)	1	1
	72	171	(3)	240	75	198	4	277

Notes to the consolidated financial statements continued

27. Employee retirement benefits (continued)

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

	HK Scheme		Overseas Plans	
	2021	2020	2021	2020
Discount rate	1.2%	0.4%	0.4% – 3.1%	0.3% – 2.7%
Future salary growth rate	4.0%	4.0%	3.5% – 4.5%	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\$22 million for the HK Scheme (2020: HK\$29 million) and HK\$58 million for overseas plans (2020: HK\$60 million)
- If the rate of growth of salaries was higher by 25 basis points the obligation would increase by approximately HK\$20 million for the HK Scheme (2020: HK\$27 million) and HK\$62 million for overseas plans (2020: HK\$67 million)

(g) Major categories of assets

	HK Scheme		Overseas Plans	
	2021	2020	2021	2020
Equities	52%	53%	9%	9%
Bonds	42%	40%	4%	4%
Investment funds	–	–	22%	18%
Insurance contracts	–	–	60%	66%
Cash and others	6%	7%	5%	3%
	100%	100%	100%	100%

28. Share capital and other equity instruments

	2021		2020	
	No. of Shares	HK\$'M	No. of Shares	HK\$'M
Issued and fully paid				
Ordinary share capital:				
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
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		3,878
		65,025		65,025

Notes to the consolidated financial statements continued

28. Share capital and other equity instruments (continued)

Other equity instrument	2021 HK\$'M	2020 HK\$'M
<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	7,750
	16,733	16,733

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 2021 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 to Standard Chartered Bank with a face value of US\$250 million. During the year ended 31 December 2019, this instrument was subsequently transferred from Standard Chartered Bank to SC PLC by way of transfer agreement. 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 to SC PLC 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 to SC PLC 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 5.661percent. 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

29. 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 consolidated 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 mainly 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 2021, an amount of HK\$2,953 million (2020: HK\$2,680 million) has been reserved for this purpose.

Notes to the consolidated financial statements continued

30. Cash and cash equivalents

(a) Components of cash and cash equivalents in the consolidated cash flow statement

	2021 HK\$'M	2020 HK\$'M
Cash and balances at central banks	83,419	66,640
Loans and advances to banks with original maturity within three months	47,677	69,114
Financial assets at fair value through profit or loss with original maturity within three months	312	–
Investment securities with original maturity within three months	50,024	70,634
Amounts due from fellow subsidiaries with original maturity within three months	7,346	4,053
Less: Overdrafts included in “deposits by banks”	(28)	–
Less: Overdrafts included in “amounts due to fellow subsidiaries”	(6,534)	(6,279)
	182,216	204,162

(b) Reconciliation with the consolidated statement of financial position

	2021 HK\$'M	2020 HK\$'M
Cash and balances at central banks	83,419	66,640
Financial assets at fair value through profit or loss	215,747	245,239
Loans and advances to banks	112,146	129,316
Investment securities	476,792	521,269
Amounts due from fellow subsidiaries	185,689	206,675
Overdrafts included in “deposits by banks”	(28)	–
Overdrafts included in “amounts due to fellow subsidiaries”	(6,534)	(6,279)
Amounts shown in the consolidated statement of financial position	1,067,231	1,162,860
Less: amounts with an original maturity of beyond three months	(885,015)	(958,698)
Cash and cash equivalents in the consolidated cash flow statement	182,216	204,162

Notes to the consolidated financial statements continued

30. 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.

	2021			
	Subordinated liabilities to fellow subsidiaries and immediate holding company HK\$'M	Subordinated liabilities to third parties HK\$'M	Lease liabilities HK\$'M	Total HK\$'M
At 1 January 2021	46,766	-	3,613	50,379
Changes from financing cash flows:				
Issuance of subordinated liabilities	20,515	-	-	20,515
Redemption of subordinated liabilities	(18,606)	-	-	(18,606)
Interest paid on subordinated liabilities	(1,250)	-	-	(1,250)
Payment of lease liabilities	-	-	(1,487)	(1,487)
Total changes from financing cash flows	659	-	(1,487)	(828)
Exchange adjustments	50	-	(32)	18
Hedge accounting adjustments	(445)	-	-	(445)
Net increase in lease liabilities from entering into new leases, net of disposals	-	-	2,193	2,193
Interest expense on subordinated liabilities and borrowings	1,071	-	-	1,071
Interest expense on lease liabilities	-	-	146	146
At 31 December 2021	48,101	-	4,433	52,534
	2020			
	Subordinated liabilities to fellow subsidiaries and immediate holding company HK\$'M	Subordinated liabilities to third parties HK\$'M	Lease liabilities HK\$'M	Total HK\$'M
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)
Total changes from financing cash flows	9,248	(6,236)	(1,402)	1,610
Exchange adjustments	390	-	7	397
Hedge accounting adjustments	41	-	-	41
Net increase in lease liabilities from entering into new leases, net of disposals	-	-	671	671
Interest expense on subordinated liabilities and borrowings	978	360	-	1,338
Interest expense on lease liabilities	-	-	155	155
At 31 December 2020	46,766	-	3,613	50,379

Notes to the consolidated financial statements continued

31. 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.

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.

	2021			2020 (restated) ¹		
	Notional principal amounts	Fair value assets	Fair value liabilities	Notional principal amounts	Fair value assets	Fair value liabilities
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Foreign exchange derivative contracts:						
Forward foreign exchange contracts ¹	6,324,794	39,379	(38,580)	5,805,570	87,705	(96,212)
Currency swaps and options	911,273	13,767	(10,705)	672,180	15,728	(15,741)
	7,236,067	53,146	(49,285)	6,477,750	103,433	(111,953)
Interest rate derivative contracts:						
Swaps	4,706,194	14,899	(16,726)	5,051,593	20,148	(25,235)
Forward rate agreement and options	37,496	201	(678)	45,925	195	(709)
	4,743,690	15,100	(17,404)	5,097,518	20,343	(25,944)
Other derivative contracts	129,807	3,089	(8,556)	98,709	2,882	(10,958)
Total derivatives	12,109,564	71,335	(75,245)	11,673,977	126,658	(148,855)

¹ FX swaps previously grouped under "currency swaps and options" are now re-grouped under "forward foreign exchange contracts" to align with the presentation of the SCPLC Group. Comparative figures have been restated accordingly.

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:

	2021			2020		
	Notional principal amounts	Fair value assets	Fair value liabilities	Notional principal amounts	Fair value assets	Fair value liabilities
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Derivatives designated as fair value hedges:						
Interest rate swaps	78,477	631	(632)	96,380	43	(2,178)
Cross currency swaps	2,031	140	-	3,895	-	(176)
	80,508	771	(632)	100,275	43	(2,354)
Derivatives designated as cash flow hedges:						
Interest rate swaps	60,270	432	(498)	61,296	548	(839)
Cross currency swaps	64,404	1,655	(141)	50,591	88	(898)
	124,674	2,087	(639)	111,887	636	(1,737)
Derivatives designated as net investment hedges:						
Forward exchange contracts	39,007	474	(423)	28,962	-	(2,269)
Total derivatives held for hedging	244,189	3,332	(1,694)	241,124	679	(6,360)

Notes to the consolidated financial statements continued

31. 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	2021				2020			
	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M
Interest rate risk								
Notional amount								
Hedge of debt securities	694	3,765	31,408	4,024	571	17,479	35,315	4,039
Hedge of treasury bills	-	373	11,652	3,066	-	947	23,046	2,016
Hedge of loans and advances to customers	-	263	8,952	333	828	4,439	7,700	-
Hedge of intragroup borrowings	-	-	12,763	-	-	-	-	-
Hedge of customer accounts	-	658	526	-	-	-	-	-
	694	5,059	65,301	7,423	1,399	22,865	66,061	6,055
Foreign exchange risk and interest rate risk								
Notional amount								
Hedge of debt securities	-	-	-	-	142	-	-	-
Hedge of treasury bills	-	2,031	-	-	1,501	-	2,252	-
	-	2,031	-	-	1,643	-	2,252	-

Hedging Instruments and ineffectiveness

Risk category	2021			Change in fair value used to calculate hedge ineffectiveness HK\$'M	Ineffectiveness recognised in net trading income HK\$'M
	Notional HK\$'M	Carrying Amount HK\$'M			
		Asset	Liability		
Interest rate risk					
Interest rate swaps – Hedge of debt securities	39,891	385	(174)	930	-
Interest rate swaps – Hedge of treasury bills	15,091	129	(133)	401	-
Interest rate swaps – Hedge of loans and advances to customers	9,548	117	(77)	50	2
Interest rate swaps – Hedge of intragroup borrowings	12,763	-	(242)	(251)	-
Interest rate swaps – Hedge of customer accounts	1,184	-	(6)	(2)	-
	78,477	631	(632)	1,128	2
Foreign exchange risk and interest rate risk					
Cross currency swaps – Hedge of debt securities	-	-	-	2	-
Cross currency swaps – Hedge of treasury bills	2,031	140	-	236	(5)
	2,031	140	-	238	(5)

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

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Fair value hedges (continued)

Hedging Instruments and ineffectiveness (continued)

Risk category	2020				
	Notional HK\$'M	Carrying Amount*		Change in fair value used to calculate ineffectiveness hedge 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 loans and advances to customers	12,967	17	(50)	(7)	(1)
	96,380	43	(2,178)	(1,428)	(2)
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
	3,895	–	(176)	(194)	3

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

Hedged items

	2021					Accumulated amortising amount of fair value hedge adjustments no longer designated as hedges HK\$'M
	Carrying Amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in the value used for calculating ineffectiveness hedge HK\$'M	
	Asset HK\$'M	Liability HK\$'M	Asset HK\$'M	Liability HK\$'M		
Debt securities	40,134	–	(286)	–	(932)	(96)
Treasury bills	17,169	–	(160)	–	(642)	(3)
Loans and advances to customers	9,505	–	(44)	–	(48)	2
Intragroup borrowings	–	(13,014)	–	251	251	–
Customer accounts	–	(1,182)	–	2	2	–
	66,808	(14,196)	(490)	253	(1,369)	(97)

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Fair value hedges (continued)

Hedged items (continued)

	2020						Accumulated amount of fair value hedge adjustments no longer designated as hedges HK\$'M
	Carrying Amount		Accumulated amount of fair value hedge adjustments included in the carrying amount		Change in the value used for calculating hedge ineffectiveness HK\$'M		
	Asset HK\$'M	Liability HK\$'M	Asset HK\$'M	Liability HK\$'M			
Debt securities	59,115	-	1,102	-	752	(104)	
Treasury bills	30,822	-	979	-	865	(27)	
Loans and advances to customers	12,968	-	23	-	6	3	
	102,905	-	2,104	-	1,623	(128)	

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	2021				2020			
	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M
	Interest rate risk							
Notional amount								
Hedge of debt securities	-	-	2,090	-	-	2,855	-	-
Hedge of loans and advances to customers	-	21,652	20,442	-	-	19,459	22,978	-
Hedge of customer accounts	-	-	8,407	7,679	-	-	6,445	9,559
	-	21,652	30,939	7,679	-	22,314	29,423	9,559
Foreign exchange risk and interest rate risk								
Notional amount								
Hedge of debt securities	-	4,261	6,031	-	-	-	-	-
Hedge of treasury bills	-	21,897	156	-	-	12,646	12,659	-
Hedge of intragroup lending and borrowing	-	24,993	-	-	-	23,557	-	-
Hedge of customer accounts	1,182	5,884	-	-	-	1,729	-	-
	1,182	57,035	6,187	-	-	37,932	12,659	-

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Cash flow hedges (continued)

Hedging instruments and ineffectiveness

Risk category	2021						
	Carrying Amount ¹			Change in fair value used to calculate hedge ineffectiveness HK\$'M	Change in value of the hedging instrument recognised in OCI HK\$'M	Ineffectiveness recognised in net trading income HK\$'M	Amount reclassified from reserves to net interest income HK\$'M
	Notional HK\$'M	Asset HK\$'M	Liability HK\$'M				
Interest rate risk							
Interest rate swaps – Hedge of debt securities	2,090	1	(16)	(17)	(17)	-	-
Interest rate swaps – Hedge of loans and advances to customers	42,094	94	(70)	(173)	(173)	-	1
Interest rate swaps – Hedge of customer accounts	16,086	337	(412)	688	687	1	(30)
	60,270	432	(498)	498	497	1	(29)
Foreign exchange risk and interest rate risk							
Cross currency swaps – Hedge of debt securities	10,292	259	(28)	119	121	(2)	-
Cross currency swaps – Hedge of treasury bills	22,053	1,391	-	1,685	1,686	(1)	-
Cross currency swaps – Hedge of intragroup lending and borrowing	24,993	2	(67)	(64)	(64)	-	-
Cross currency swaps – Hedge of customer accounts	7,066	3	(46)	(51)	(51)	-	-
	64,404	1,655	(141)	1,689	1,692	(3)	-

¹ The carrying amount represents the fair value of the hedging instruments including its respective accrued interest

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Cash flow hedges (continued)

Hedging instruments and ineffectiveness (continued)

Risk category	2020							
	Carrying Amount ¹			Change in fair value used to calculate hedge ineffectiveness HK\$'M	Change in value of the hedging instrument recognised in OCI HK\$'M	Ineffectiveness recognised in net trading income HK\$'M	Amount reclassified from reserves to net interest income HK\$'M	
	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 loans and advances to customers	42,437	467	(1)	189	188	1	(21)	
Interest rate swaps – Hedge of customer accounts	16,004	81	(837)	(405)	(404)	(1)	(18)	
	61,296	548	(839)	(217)	(217)	–	(39)	
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 customer accounts	1,729	–	(93)	(79)	(79)	–	–	
	50,591	88	(898)	(1,016)	(1,018)	2	–	

¹ The carrying amount represents the fair value of the hedging instruments including its respective accrued interest

Hedged items

	2021		
	Change in the value used for calculating 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	(104)	4	–
Treasury bills	(1,686)	(3)	(1)
Loans and advances to customers	173	(55)	–
Intragroup lending and borrowing	64	2	–
Customer accounts	(636)	(28)	(28)
	(2,189)	(80)	(29)

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Cash flow hedges (continued)

Hedged items (continued)

	2020		
	Change in the value used for calculating 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	1	(1)	-
Treasury bills	719	110	-
Loans and advances to customers	(188)	188	(6)
Intragroup lending and borrowing	220	32	-
Customer accounts	483	(708)	(64)
	1,235	(379)	(70)

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.

Maturity of hedging instruments

The Group held the following derivatives as hedging instruments in net investment hedges.

Risk category	2021				2020			
	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M	Less than one month HK\$'M	More than one month and less than one year HK\$'M	One to five years HK\$'M	More than five years HK\$'M
Interest rate risk								
Notional amount								
Hedge of net investments in subsidiaries	30,783	8,224	-	-	28,962	-	-	-
	30,783	8,224	-	-	28,962	-	-	-

Notes to the consolidated financial statements continued

31. Derivative financial instruments (continued)

Net investment hedges (continued)

Hedging instruments and ineffectiveness

Risk category	2021							
	Notional HK\$'M	Carrying amount		Change in fair value used to calculate ineffectiveness hedge HK\$'M	Change in 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	39,007	474	(423)	51	51	-	-	

Risk category	2020							
	Notional HK\$'M	Carrying Amount		Change in fair value used to calculate ineffectiveness hedge HK\$'M	Change in 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	-	-	

Hedged items

	2021		
	Change in the value used for calculating ineffectiveness HK\$'M	Exchange reserve HK\$'M	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied HK\$'M
Net investments in subsidiaries	(51)	51	-

	2020		
	Change in the value used for calculating ineffectiveness HK\$'M	Exchange reserve HK\$'M	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied HK\$'M
Net investments in subsidiaries	2,269	(2,269)	-

Notes to the consolidated financial statements continued

32. Contingent liabilities and commitments

(a) *The following is a summary of the contractual amounts of each significant contingent liability and commitment:*

	2021 HK\$'M	2020 HK\$'M
Direct credit substitutes	14,548	15,401
Transaction-related contingencies	39,901	36,401
Trade-related contingencies	16,981	15,405
Forward asset purchases	197	196
Forward deposits placed	1	343
Other commitments:		
which are not unconditionally cancellable:		
with original maturity of not more than one year	32,794	20,162
with original maturity of more than one year	155,625	146,621
which are unconditionally cancellable	754,799	671,324
	1,014,846	905,853

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\$155 million (2020: HK\$149 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.

33. 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

Risk management approach (continued)

Enterprise Risk Management Framework (“ERMF”) (continued)

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:

- As part of the Group’s commitment to be a leader in sustainable and responsible banking, Environmental, Social and Governance risks have been incorporated within the expanded Reputational and Sustainability Risk Type Framework;
- Conduct Risk and Country Risk have been embedded as overarching components of the ERMF, rather than viewed as standalone risks;
- Operational Risk has been expanded to include Technology risk to meet the needs of the digital agenda of the Bank;
- Good progress has been made on integrating Climate Risk into mainstream risk management;
- Overall ERMF effectiveness has improved, with a substantial focus on development of non-financial risk management.

The Group will carry this momentum into 2022 as we continue to roll out the ERMF and Risk Type Frameworks, as well as organizing training programmes to ensure awareness and stakeholder engagement.

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 Asia / Country Chief Risk Officer (“CRO”) that it is aligned with the ERMF and the Asia / Country Risk Appetite Statement where projections allow.

Notes to the consolidated financial statements continued

33. 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 manage 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.
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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

Risk management approach (continued)

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.

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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

Risk management approach (continued)

Risk Appetite and profile (continued)

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 Asia Risk Committee ("ARC") on the consolidated basis and the Executive Risk Committee ("ERC") on the solo basis. This includes the reporting of breaches.

The ARC 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.

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 Asia Chief Risk Officer and the ARC 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

Stress testing (continued)

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 ARC on the consolidated basis and the ERC on the solo basis. A Stress Testing Forum is appointed by the ARC to review and challenge the Stress Tests.

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 ARC. 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.
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: risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.
Operational and Technology Risk	Potential for loss resulting from inadequate or failed internal processes, technology events, human error, or from the impact of external events (including legal risks).
Reputational and Sustainability Risk	Potential for damage to the franchise (such as loss of trust, earnings or market capitalisation), because of stakeholders taking a negative view of the Group through actual or perceived actions or inactions, including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client, third party relationships, or our own operations.
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.
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.
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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

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 ARC, 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 Asia Chief Risk Officer, as Chair of the ARC, approves the use of sub-committees and forums to support the ARC 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.

Asia Risk Committee

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

The ARC 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 ARC 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(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 ARC 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 ARC and ERC take into account the requirements of the local Hong Kong regulations and the guidelines issued by the HKMA.

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, Commercial & Institutional 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.

CPBB 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 CPBB 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 ARC, 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

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 ARC 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.

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, and top 20 client concentration.

Credit concentrations are monitored by the ARC and HKERC and concentration limits that are material to the Group are reviewed and approved at least annually by the ARC 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, Commercial & Institutional 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Credit monitoring (continued)

The CPBB 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 CPBB 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.

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

33. Risk management (continued)

(a) Credit risk (continued)

Securities

Within Corporate, Commercial & Institutional 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, Commercial & Institutional 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>

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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Credit loss terminology (continued)

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 HKFRS 9/IFRS 9 expected credit loss models have been developed for the Corporate, Commercial & Institutional 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, Commercial & Institutional Banking clients.

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

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

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

- For medium-sized CPBB 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 CPBB 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 CPBB 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

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.

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

33. Risk management (continued)

(a) Credit risk (continued)

Key assumptions and judgements in determining expected credit loss (continued)

Forecast of key macroeconomic variables underlying the expected credit loss calculation (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, Commercial & Institutional 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 CPBB 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.

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

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk ("SICR") (continued)

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, Commercial and Institutional 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.

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, Commercial & Institutional Banking clients are placed on CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

CPBB 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

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.

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, Commercial & Institutional Banking client segments, including being placed on Early Alert or being classified as credit grade 12.

Assessment of credit-impaired financial assets

CPBB 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, Commercial & Institutional Banking

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

33. Risk management (continued)

(a) Credit risk (continued)

Assessment of credit-impaired financial assets (continued)

Corporate, Commercial & Institutional Banking (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 ARC, 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 ARC 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.

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 2021, the Group held a HK\$120 million (31 December 2020: HK\$279 million) management overlay relating to uncertainties as a result of the COVID-19 pandemic, HK\$67 million (31 December 2020: HK\$175 million) of which relates to Corporate, Commercial & Institutional Banking and HK\$53 million (31 December 2020: HK\$104 million) to Consumer, Private and Business Banking.

Corporate, Commercial & Institutional Banking

Although the amount of loans placed on non-purely precautionary early alert has decreased compared to 31 December 2020, balances remain significantly higher than before the pandemic. 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 2021. To take account of the heightened credit risk and the continuing uncertainties in the pace and timing of economic recovery, a judgmental 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Management overlay (continued)

COVID-19 (continued)

Consumer, Private and Business Banking

A number of components contribute to the judgmental overlay for Consumer, Private and Business 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.

China Commercial Real Estate

Chinese property developers are experiencing liquidity issues, triggered by Government policy changes aimed at deleveraging the property sector and ensuring property developers have the financial ability to complete residential properties under construction. The Government's "three red lines" matrix was introduced in August 2020 to tighten the funding conditions for property developers by limiting the growth rate in external debt. With additional controls on sales of properties to end buyers (e.g. mortgage lending control, pricing control, eligibility control etc.) and on restricting developers' ability to access cash from 'escrow accounts' with cash paid by retail residential buyers, the cash flow of developers has been significantly squeezed. Also, with capital markets reacting negatively to the tightening policies, we have seen greater volatility in bond pricing and reduced access to capital markets liquidity for developers. As such, some developers have faced/are facing difficulties in servicing and repaying financing obligations.

As at 31 December 2021, the Group's banking book exposure to China Commercial Real Estate was HKD31 billion. Client level analysis continues to be done, with the high risk clients being placed on purely precautionary or non-purely precautionary early alert. Given the evolving nature of the risks in the China Commercial Real Estate sector, a management overlay of HK\$721 million for stage 1 and stage 2 has been taken by estimating the impact of further deterioration to those clients placed on early alert.

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:

	2021 HK\$'M	2020 HK\$'M
Financial guarantees and other credit related contingent liabilities	71,430	67,207
Loan commitments and other credit related commitments	188,617	167,322
	260,047	234,529

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 2021, the Group has HK\$508,225 million (2020: HK\$485,126 million) of mortgage loans in CPBB that are not credit impaired. These are generally fully secured exposures (2020: fully secured).

In Corporate, Commercial & Institutional Banking, the Group has HK\$488,509 million (2020: HK\$418,861 million) of corporate exposures that are not credit impaired. Based on the fair value of the collateral held, 17% (2020: 19%) of these exposures are secured by collateral.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

(i) Loans and advances (continued)

Loans not credit impaired (continued)

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 35 to the financial statements.

Reposessed collateral

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

	2021 HK\$'M	2020 HK\$'M
Property, plant and equipment	34	54

Loan collateral acquired from borrowers due to restructuring or their inability to repay, continues to be recorded as "Loans and advances to customers" in the consolidated 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.

Reposessed 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.

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.

Credit quality description	Corporate, Commercial & Institutional Banking	Private Banking¹	CPBB
	Default grade mapping	Internal ratings	Number of days past due
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

33. Risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Loans and advances (continued)

	2021		2020	
	Loans and advances to customers HK\$'M	Loans and advances to banks HK\$'M	Loans and advances to customers HK\$'M	Loans and advances to banks HK\$'M
Stage 1				
– Strong	1,012,760	103,169	894,851	123,172
– Satisfactory	148,790	8,763	140,330	5,973
Stage 2				
– Strong	7,241	10	12,366	20
– Satisfactory	23,579	48	40,688	177
– Higher risk	1,201	83	1,645	–
of which (stage 2):				
– Less than 30 days past due	451	–	832	–
– More than 30 days past due	574	–	677	189
Stage 3, credit impaired	9,160	178	7,327	–
Gross loans and advances	1,202,731	112,251	1,097,207	129,342

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.

	2021		2020	
	Treasury bills HK\$'M	Other debt securities HK\$'M	Treasury bills HK\$'M	Other debt securities HK\$'M
AAA	1,945	137,700	851	117,858
AA- to AA+	49,343	205,774	68,086	216,302
A- to A+	14,759	153,686	24,241	167,842
Lower than A-	–	18,160	–	18,315
Unrated	–	14,440	–	14,965
Gross amount of debt securities	66,047	529,760	93,178	535,282

Movement in credit impairment

The table below sets out the movement in gross exposures and credit impairment by stage in respect of loans and 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Movement in credit impairment (continued)

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

	2021											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M
As of 1 January 2021	1,035,181	1,577	1,033,604	54,699	924	53,775	7,327	3,050	4,277	1,097,207	5,551	1,091,656
Net transfers between stages	(26,619)	753	(27,372)	21,175	(1,263)	22,438	5,444	510	4,934	-	-	-
Net changes in exposure	174,971	485	174,486	(42,883)	(13)	(42,870)	(1,737)	(1,398)	(339)	130,351	(926)	131,277
Changes in risk parameters	-	(950)	950	-	1,172	(1,172)	-	2,773	(2,773)	-	2,995	(2,995)
Net re-measurement from stage change	-	(257)	257	-	297	(297)	-	38	(38)	-	78	(78)
Unwinding discount	-	-	-	-	-	-	-	(64)	64	-	(64)	64
Written offs (net of recoveries)	-	-	-	-	-	-	(1,842)	(1,388)	(454)	(1,842)	(1,388)	(454)
Exchange translation difference	(21,983)	-	(21,983)	(970)	-	(970)	(32)	2	(34)	(22,985)	2	(22,987)
As at 31 December 2021	1,161,550	1,608	1,159,942	32,021	1,117	30,904	9,160	3,523	5,637	1,202,731	6,248	1,196,483
Consolidated income statement (release)/charge		(722)		1,456		1,413					2,147	

Notes to the consolidated financial statements continued

33. Risk management (continued)

(a) Credit risk (continued)

Loans and advances to customers (continued)

2020

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M	Gross balance HK\$M	Total credit impairment HK\$M	Net carrying amount HK\$M
As of 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 transfers between stages	(78,019)	1,474	(79,493)	73,019	(2,147)	75,166	5,000	673	4,327	—	—	—
Net changes in exposure	131,816	950	130,866	(73,987)	125	(74,112)	(1,342)	(1,550)	208	56,487	(475)	56,962
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
Written offs (net of recoveries)	—	—	—	—	—	—	(2,406)	(2,352)	(54)	(2,406)	(2,352)	(54)
Exchange translation difference	28,856	(55)	28,911	1,679	4	1,675	825	716	109	31,360	665	30,695
As of 31 December 2020	1,035,181	1,577	1,033,604	54,699	924	53,775	7,327	3,050	4,277	1,097,207	5,551	1,091,656
Consolidated income statement (release)/charge		(1,114)			2,250			1,440				2,576

Notes to the consolidated financial statements continued

33. Risk management (continued)

(b) *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 Market Risk and Counterparty Credit 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 business, 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.

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.

All businesses incurring Traded Risk must be 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. The TRTF, and underlying policies and standards ensure that these Traded Risk limits are implemented. All Traded Risk exposures throughout the Group 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 ARC 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. Branch authority for setting Traded Risk limits remains with TRM which retains responsibility for monitoring and reporting excesses.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(b) *Traded Risk (continued)*

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 all Traded Risk limits to the TRTF Owner (Global Head, TRM) who in turn delegates approval authorities to individual Traded Risk managers.

Additional limits are placed on specific instruments, positions, and portfolio concentrations where appropriate. 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. Limits are typically reviewed twice a year.

Most of the Traded Risk exposures are monitored daily against approved limits. Traded Risk limits apply at all times, unless separate intra-day limits have been set. Limit excess approval decisions are based on an assessment of the circumstances driving the excess and of the proposed remediation plan. 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 all Traded Risk exposures in financial markets and in portfolios outside financial markets such as syndicated loans and principal finance. Stress loss excesses are discussed with the business and approved where appropriate, based on delegated authority levels.

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.
- Commodity Risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture as well as commodity baskets
- Credit spread risk: arising from changes in credit spreads. It represents the risk specific to the issuer or for the industry representing the issuer.
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Notes to the consolidated financial statements continued

33. Risk management (continued)

(b) *Traded Risk (continued)*

Value at Risk (“VaR”)

Group uses a Value at Risk (VaR) model to measure 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.

For day-to-day risk management, VaR is calculated as at the close of business for expected movements over one business day and to a confidence level of 97.5 percent. Intra-day risk levels may vary from those reported at the end of the day.

The Group applies two VaR methodologies:

- Historical simulation: this 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.

A one-year historical observation period is applied in both methods.

Stress Testing

The VaR and PFE measurement are complemented by weekly stress testing of Market Risk and Counterparty Credit Risk to highlight the potential risk that may arise from severe but plausible market events. 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.

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 Financial Markets and Treasury books. Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

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 Traded Risk exposure. The Asia Risk Committee considers the results of stress tests as part of its supervision of Risk Appetite. Where required, Group and business-wide stress testing will be supplemented by entity stress testing at a country level. This stress testing is coordinated at the country level and subject to the relevant local governance.

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

33. Risk management (continued)

(b) Traded Risk (continued)

Market risk VaR coverage (continued)

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

Value at risk:	2021				2020 (restated)			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Total	136.4	271.3	90.0	124.0	185.0	248.2	96.8	221.2

Trading (VaR at 97.5%, 1 day)

Value at risk:	2021				2020 (restated)			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Interest rate risk	35.2	57.1	20.3	23.6	34.1	56.3	18.9	44.7
Foreign exchange risk	13.9	33.0	7.2	9.0	13.9	32.3	6.0	12.9
Credit spread risk	14.4	24.6	8.4	21.6	9.6	18.7	3.1	17.9
Total [^]	41.4	68.4	23.9	34.1	39.5	62.9	20.4	54.8

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

Value at risk:	2021				2020 (restated)			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Interest rate risk ^{^^}	110.4	222.9	72.0	95.4	162.0	216.9	82.3	174.1

* 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 through other comprehensive income ("FVOCI") securities.

Total trading VaR includes Equity and Commodity risks which are immaterial in exposure.

Market risk changes

Many countries started to launch free vaccination programmes for COVID-19 in the year of 2021, investors became optimistic as the global economy continued to open up. However, inflation concerns prompted Central Banks to quickly tighten monetary policy as surging prices for goods and energy pushed up expectations of future inflation.

In addition, lower volatility was observed in the market as COVID seems to be contained. This leads to a reduction in actual year end VaR numbers for both trading and Non-trading books.

Management VaR allows SCB to manage the market risk across the trading book and most of the fair valued non-trading books. The scope of instruments included in the Management VaR was changed in 2021 to exclude instruments held at amortised cost. The 2020 VaR numbers presented reflect the revised scope.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(b) *Traded Risk (continued)***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 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.

(c) **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:

	2021 HK\$'M	2020 HK\$'M
US dollars exposure		
Spot assets	700,356	636,451
Spot liabilities	(762,562)	(746,680)
Forward purchases	4,033,767	3,410,137
Forward sales	(3,976,327)	(3,302,703)
Net option position	9,896	(588)
Net long/(short) non-structural position	5,130	(3,383)

Notes to the consolidated financial statements continued

33. Risk management (continued)

(c) Foreign exchange risk (continued)

	2021 HK\$'M	2020 HK\$'M
Chinese Renminbi exposure		
Spot assets	354,113	338,883
Spot liabilities	(370,723)	(321,400)
Forward purchases	1,542,643	1,417,123
Forward sales	(1,514,616)	(1,431,414)
Net option position	(10,043)	255
Net long non-structural position	1,374	3,447
South Korean Won exposure		
Spot assets	521,143	531,894
Spot liabilities	(489,918)	(504,260)
Forward purchases	1,115,284	1,039,627
Forward sales	(1,146,852)	(1,063,573)
Net option position	(201)	134
Net (short)/long non-structural position	(544)	3,822

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

	2021 HK\$'M	2020 HK\$'M
Chinese Renminbi	31,027	29,375
US dollars	32,640	21,508
South Korean Won	16,848	22,522
	80,515	73,405

(d) 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 2021, the IRRBB metric remained within the regulatory threshold.

(e) 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(e) *Liquidity and Funding risk (continued)*

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.

Liquidity risk management

The Treasury Liquidity 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 Liquidity 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 Liquidity 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

33. Risk management (continued)

(e) *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, advances-to-deposits ratio and Net Stable Funding Ratio (NSFR).

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 2021 i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2021 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 2021 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

33. Risk management (continued)

(e) 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.

	2021 HK\$'M	2020 HK\$'M
Loans and advances to customers	1,196,483	1,091,656
Customer accounts	1,820,815	1,736,729
Advances-to-deposits ratio	65.7%	62.9%

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

33. Risk management (continued)

(e) Liquidity and Funding risk (continued)

Maturity profiles (continued)

(i) Contractual maturity of assets and liabilities (continued)

	2021							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	83,419	-	-	-	-	-	-	83,419
Loans and advances to banks	14,416	63,348	14,905	20,042	1,330	-	-	114,041
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	-	56,791	56,791
Derivative financial instruments	-	5,721	6,603	11,323	8,246	2,542	-	34,435
Investment securities	-	59,788	39,889	160,275	245,089	85,543	10,859	601,443
Loans and advances to customers	15,767	195,435	129,353	179,798	224,492	506,404	-	1,251,249
Amounts due from fellow subsidiaries	10,887	33,377	12,666	87,017	40,985	757	-	185,689
Others	30,903	27,501	25,914	4,591	1,313	-	61,970	152,192
Total Assets	155,392	385,170	229,330	463,046	521,455	595,246	129,620	2,479,259
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	-	-	-	-	56,791	56,791
Deposits by banks	38,626	14,467	2,223	6,164	1,595	-	-	63,075
Customer accounts	1,382,931	146,780	102,516	179,497	18,998	13,987	-	1,844,709
Derivative financial instruments	-	6,856	8,893	12,465	9,422	2,331	-	39,967
Debt securities in issue	45	159	4,972	11,340	29,511	3,708	-	49,735
Amounts due to immediate holding company	670	-	-	-	11,996	30,613	-	43,279
Amounts due to fellow subsidiaries	6,470	14,470	12,628	44,711	3,080	715	-	82,074
Others	8,061	29,108	33,356	25,897	4,995	810	13,934	116,161
of which: Lease liabilities	5	2	15	1,343	2,850	218	-	4,433
Total Liabilities	1,436,803	211,840	164,588	280,074	79,597	52,164	70,725	2,295,791

Loans and advances to banks, investment securities, loans and advances to customers, deposits by banks, customer accounts and debt securities in issue included balances recognized at fair value through profit or loss.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(e) Liquidity and Funding risk (continued)

Maturity profiles (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
Loans and advances to banks	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
Loans and 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 by banks	39,220	15,572	2,316	5,715	3,047	-	-	65,870
Customer accounts	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

Loans and advances to banks, investment securities, loans and advances to customers, deposits by banks, customer accounts and debt securities in issue included balances carried at fair value through profit or loss.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(e) Liquidity and Funding risk (continued)

Maturity profiles (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.

	2021							Undated HK\$'M	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			
Deposits by banks	38,647	14,505	2,260	6,214	1,615	-	-	63,241	
Customer accounts	1,383,381	147,099	102,829	180,843	19,709	16,846	-	1,850,707	
Derivative financial instruments ¹	-	6,856	8,893	12,465	9,422	2,331	-	39,967	
Debt securities in issue	45	159	5,009	11,605	30,298	5,269	-	52,385	
Amounts due to immediate holding company	670	69	139	625	14,599	32,529	-	48,631	
Amounts due to fellow subsidiaries	6,470	19,317	12,673	44,842	3,635	932	-	87,869	
Others	8,022	26,911	33,356	25,897	4,995	810	70,725	170,716	
Total Liabilities	1,437,235	214,916	165,159	282,491	84,273	58,717	70,725	2,313,516	

¹ Derivatives are on a discounted basis.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(e) Liquidity and Funding risk (continued)

Maturity profiles (continued)

(iii) Maturity of financial liabilities on an undiscounted basis (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	
Deposits by banks	39,254	15,604	2,368	6,108	3,083	–	–	66,417
Customer accounts	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
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

¹ Derivatives are on a discounted basis.

(f) Operational & Technology risk

The Group defines Operational & Technology 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 ARC 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 & Technology 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

33. Risk management (continued)

(f) Operational & Technology risk (continued)

Risk classification

Operational & Technology Risk sub-types are the different ways that the Group may be operationally exposed to loss. The Group uses operational & technology risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, wherever they may arise. Operational & Technology risk sub-types are listed in the table:

Operational & Technology 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	Client service resilience	Potential for loss or adverse impact due to failures in design or maintenance of appropriate resilience measures for client services and underlying infrastructure and controls to withstand operational disruptions.
Resilience	Technology risk	Potential for loss or adverse impact due to technology failures (including hardware, software and networks).
	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).
	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.
Governance	Corporate governance and authorities	Potential for loss due to: (i) non-compliance with relevant laws, regulations, ordinances, market guidance, corporate governance codes and exchange listing requirements relating to corporate administration and board governance, OR, (ii) failure to have an appropriate framework for the delegation of authority from the board of an entity. Any risks from non-compliance with listing rules relating to remuneration, financial reporting, tax and capital requirements, or with company laws and regulations relating to financial records or reporting are outside the scope of this risk sub-type.
	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.
	Enterprise Risk Governance	Potential for loss or adverse impact due to the failure or ineffective implementation of the principles and standards for enterprise risk management framework.
Reporting and Obligations	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

33. Risk management (continued)

(g) Reputational and Sustainability risk

The Group defines Reputational and Sustainability Risk as potential for damage to the franchise (such as loss of trust, earnings or market capitalisation), because of stakeholders taking a negative view of the Group through actual or perceived actions or inactions, including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client, third party relationships, or our own operations. 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 and Sustainability Risk Type framework and policy sets out the overall management approach of Reputational Risk which includes elements of sustainability-related risk and the responsibilities and procedures for identifying, assessing and escalating reputational and sustainability related risks. The policy also defines the control and oversight standards to effectively manage Reputational and Sustainability 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. In line with the Group's definition of Reputational and Sustainability Risk, the risk sub-types have been selected to manage perceived or real stakeholder impacts (Stakeholder Perceptions) and the principles of Responsible Business Conduct and Do No Significant Harm (Environmental, Social).

Governance Committee Oversight

The Board retains the overall oversight responsibility for Reputational Risk. Oversight from an operational perspective falls under the remit of the ARC and HKERC and the Board Risk Committee.

Decision making authorities and delegation

The ARC provides Group-wide oversight on Reputational and Sustainability 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. The Sustainability Policy sets out the requirements and responsibilities for identification, assessment, escalation and management of Sustainability Risks for the Group's Operations, Clients and Third Parties.

Monitoring

Reputational Risk policies and standards are applicable to the Group. However, HKMA may impose additional guidelines and requirements on how banks manage Reputational and Sustainability Risk. In such cases, these are complied with in addition to the policies and standards. Exposure to Reputational and Sustainability Risk is monitored through:

- A requirement that process owners establish triggers to prompt consideration of Reputational and Sustainability 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

Stress testing

Reputational and Sustainability 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(h) *Compliance risk*

The Group defines Compliance Risk as “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”.

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.

(i) *Conduct risk*

To simplify risk governance and improve risk management effectiveness, Conduct Risk has been elevated to be an integral component of the Enterprise Risk management Framework (“ERMF”).

The Group defines Conduct Risk as “Risk of detriment to the Group’s clients, investors, shareholders, counterparties, employees, market integrity, and competition arising from (a) the business activities performed by the Group, or (b) individual behaviour and actions 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. Conduct risk is always considered when making strategic decisions that may impact clients, investors, shareholders, counterparties, employees, markets, and competition. The First Line Businesses and Functions are responsible for reviewing their processes and identifying the conduct related outcomes that are relevant and ensure there are controls in place to mitigate these conduct risks. The Group and Country Risk Framework Owners (“RFO”) are required to ensure that the relevant conduct outcomes are achieved through risk identification, control, monitoring and governance arrangements. The RFOs are responsible for ensuring that their Business or Function tags the appropriate conduct outcomes for risks identified under their Principal Risk Types (“PRT”), and that breaches from these risks which result in significant impact on the conduct outcomes are escalated in accordance with the mechanism set out under their relevant PRT framework.

The Conduct Risk Management approach is stated in the Group’s ERMF. 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 Group 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.

(j) *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’).

Notes to the consolidated financial statements continued

33. Risk management (continued)

(j) *Information and cyber security risk (continued)*

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 ARC. 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 ARC to ensure effective mitigation and appropriate risk management.

(k) *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 ARC. Both the ARC 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.

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 ARC.

(l) *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").

Notes to the consolidated financial statements continued

33. Risk management (continued)

(l) Capital management (continued)

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.

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 2021.

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 uses the internal models approach ("IMM approach") to calculate majority of its general market risk capital charge in respect of the risk categories of interest rates and foreign exchange (including gold) and uses the standardised (market risk) approach to calculate the general market risk capital charge for its equity exposures and commodity exposures, market risk capital charge on exempted foreign exchange exposures and the specific risk capital charge for its interest rate exposures and equity exposures. The Group also 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 2021 consists of tier 1 capital after deductions of HK\$155,597 million (2020: HK\$152,645 million) and tier 2 capital after deductions of HK\$15,521 million (2020: HK\$12,238 million). Tier 2 capital includes subordinated debt and impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital.

(m) 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.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(m) Model Risk (continued)

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.

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, plans for model redevelopment or other appropriate mitigation measure. Any mitigation method chosen undergoes robust review, challenge, and approval. Operational controls underlie Model Risk-related processes, with regular risk assessments performed to assess appropriateness and effectiveness of those controls. Remediation plans are proposed and 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 Asia 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 Head of Model Risk Management, SCBHK Group.

The Asia 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 Asia Risk Committee.

Notes to the consolidated financial statements continued

33. Risk management (continued)

(m) Model Risk (continued)

Monitoring (continued)

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, through the Model Assessment Forum and the Asia 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 Asia Risk Committee on a regular basis.

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.

34. 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 34 (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

34. 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:

	2021			
	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	65,441	114,758	1,315	181,514
– Non-trading financial assets mandatorily at fair value through profit or loss	203	25,801	6,973	32,977
– Financial assets designated at fair value through profit or loss	–	1,256	–	1,256
Investment securities at fair value through other comprehensive income	170,938	210,645	787	382,370
Amounts due from fellow subsidiaries				
– Positive fair values of derivatives	50	36,846	4	36,900
– Debt securities	–	2	5,198	5,200
Total assets measured at fair value	236,632	389,308	14,277	640,217
Financial Liabilities at fair value through profit or loss:				
– Trading liabilities	28,061	40,832	–	68,893
– Financial liabilities designated at fair value through profit or loss	–	40,327	3,038	43,365
Amounts due to immediate holding company				
– Negative fair values of derivatives	–	422	–	422
Amounts due to fellow subsidiaries				
– Negative fair values of derivatives	42	34,794	20	34,856
Total liabilities measured at fair value	28,103	116,375	3,058	147,536
	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 designated 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 derivatives	44	56,099	–	56,143
– Debt securities	–	5,171	–	5,171
Total assets measured at fair value	314,284	470,623	3,818	788,725
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 derivatives	–	973	–	973
Amounts due to fellow subsidiaries				
– Negative fair values of derivatives	15	63,935	–	63,950
Total liabilities measured at fair value	18,881	192,645	1,623	213,149

There were no significant transfers between level 1 and level 2 instruments during 2020 and 2021.

Notes to the consolidated financial statements continued

34. 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

	2021			
	Financial assets at fair value through profit or loss HK\$'M	Financial assets at fair value through other comprehensive income HK\$'M	Amount due from fellow subsidiaries HK\$'M	Total Level 3 Assets HK\$'M
At 1 January 2021	2,840	978	–	3,818
Total gains recognised in the consolidated income statement				
– Net trading income	111	–	5	116
Total gains recognised in other comprehensive income				
– Net change in fair value	–	7	13	20
Purchases	7,403	230	1	7,634
Sales	(3,198)	(2)	–	(3,200)
Settlements	(1,167)	–	–	(1,167)
Transferred into level 3 ¹	2,446	–	5,185	7,631
Transferred out of level 3 ¹	(150)	(426)	(2)	(578)
Other movement	3	–	–	3
At 31 December 2021	8,288	787	5,202	14,277
Total gains recognised in the consolidated income statement relating to assets held at 31 December 2021				
– Net trading income	140	–	4	144

Financial liabilities

	2021		
	Financial liabilities at fair value through profit or loss HK\$'M	Amounts due to fellow subsidiaries HK\$'M	Total Level 3 Liabilities HK\$'M
At 1 January 2021	1,623	–	1,623
Total (gains)/losses recognised in the consolidated income statement			
– Net trading income	(65)	18	(47)
Additions	5,301	5	5,306
Sales	(1,910)	(6)	(1,916)
Settlements	(1,951)	(1)	(1,952)
Transferred into level 3 ¹	40	4	44
At 31 December 2021	3,038	20	3,058
Total (gains)/losses recognised in the consolidated income statement relating to liabilities held at 31 December 2021			
– Net trading income	(69)	18	(51)

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

34. Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

The movements during the year for level 3 financial assets and liabilities are as follows:

Financial assets

	2020		Total Level 3 Assets HK\$'M
	Financial assets at fair value through profit or loss HK\$'M	Financial assets at fair value through other comprehensive income HK\$'M	
At 1 January 2020	3,024	435	3,459
Total losses recognised in the consolidated 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)
At 31 December 2020	2,840	978	3,818
Total gains recognised in the consolidated income statement relating to assets held at 31 December 2020			
– Net trading income	59	–	59

¹ Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) during the year.

Financial liabilities

	2020		Total Level 3 Liabilities HK\$'M
	Financial liabilities at fair value through profit or loss HK\$'M	Amounts due to fellow subsidiaries HK\$'M	
At 1 January 2020	919	3	922
Total losses recognised in the consolidated income statement			
– Net trading income	12	–	12
Additions	2,171	–	2,171
Settlements	(1,479)	(3)	(1,482)
At 31 December 2020	1,623	–	1,623
Total losses recognised in the consolidated income statement relating to liabilities held at 31 December 2020			
– Net trading income	13	–	13

Notes to the consolidated financial statements continued

34. 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.

Type of instruments	Principal valuation technique	Significant unobservable inputs	Range ¹	Weighted average ²	
Debt securities	Discounted cash flows	Price/Yield	0.50% to 5.10% (2020: 4.70% to 6.20%)	0.80% (2020: 5.10%)	
		Recovery rates	NA (2020: 55.00%)	NA (2020: 55.00%)	
Loans and advances to customers	Discounted cash flows	Recovery rates	79.70% to 100% (2020: 89.40% to 100%)	86.50% (2020: 94.40%)	
		Price/Yield	0.20% to 10.90% (2020: 1.80% to 6.20%)	2.20% (2020: 3.60%)	
		Repo curve	0.30% to 3.00% (2020: NA)	2.40% (2020: NA)	
Equity shares	Discounted cash flows	Discount rates	9.00% to 12.80% (2020: 8.30% to 11.50%)	9.70% (2020: 10.50%)	
		Comparable pricing/Yield	Price-Book multiple	0.44x to 1.12x (2020: NA)	1.07x (2020: NA)
			Liquidity discount	7.90% to 29.20% (2020: NA)	8.90% (2020: NA)
Debt securities issued	Discounted cash flows	Credit spreads	0.70% to 11.50% (2020: 0.50% to 11.50%)	2.70% (2020: 3.10%)	
Structured bank deposits	Discounted cash flows	Credit spreads	0.40% to 3.00% (2020: 1.00% to 1.40%)	1.40% (2020: 1.10%)	
Structured customer deposits	Discounted cash flows	Credit spreads	1.00% to 2.00% (2020: 1.00%)	1.20% (2020: 1.00%)	
		Recovery rates	NA (2020: 55.00%)	NA (2020: 55.00%)	
Derivatives	Discounted cash flows	Credit spreads	0.50% to 3.00% (2020: NA)	1.00% (2020: NA)	
		Price/Yield	NA (2020: 0.90%)	NA (2020: 0.90%)	
	Internal pricing model	Equity-Equity correlation	8.00% to 96.00% (2020: 20.00% to 90.00%)	70.00% (2020: 49.00%)	
		Equity-Foreign exchange correlation	-70.00% to 85.00% (2020: -70.00% to 80.00%)	-33.00% (2020: -59.00%)	
	Option pricing model	Bond option implied volatility	25.00% to 30.00% (2020: NA)	26.70% (2020: NA)	

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 2021 and 31 December 2020. 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

34. 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.

Repo Curve

Repo Curve is the term structure of repo rates on repos and reverse repos at particular point in time.

Price-Book (P/B) Multiple

Price-Book Multiple is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm.

Liquidity discount

Liquidity discount in the valuation of unlisted investments reflect the fact that these investments are not actively traded. An increase in liquidity discount will result in an unfavourable movement in the fair value of the unlisted firm.

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.

Volatility

Volatility represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be.

Notes to the consolidated financial statements continued

34. 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

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.

	2021					
	Held at fair value through profit or loss			Held at fair value through other comprehensive income		
	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Debt securities	290	319	261	5,198	5,202	5,194
Loans and advances to customers	7,480	7,607	7,334	-	-	-
Equity shares	329	363	297	787	862	711
Positive fair values of derivatives	193	197	188	-	-	-
Debt securities issued	(315)	(315)	(315)	-	-	-
Structured bank deposits	(2,035)	(2,034)	(2,035)	-	-	-
Structured customer deposits	(688)	(688)	(688)	-	-	-
Negative fair values of derivatives	(20)	(19)	(20)	-	-	-
	5,234	5,430	5,022	5,985	6,064	5,905

	2020					
	Held at fair value through profit or loss			Held at fair value through other comprehensive income		
	Net exposure	Favourable changes	Unfavourable changes	Net exposure	Favourable changes	Unfavourable changes
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Debt securities	486	535	438	-	-	-
Loans and 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 values of derivatives	(27)	(4)	(51)	-	-	-
	1,217	1,365	1,054	978	1,075	880

Notes to the consolidated financial statements continued

34. 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)

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.

Financial instruments	Fair value changes	2021	2020
		HK\$'M	HK\$'M
Held at fair value through profit or loss	Possible increase	196	148
	Possible decrease	212	163
Held at fair value through other comprehensive income	Possible increase	79	97
	Possible decrease	80	98

(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 2021 and 2020, 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.

	2021		2020	
	Carrying amount HK\$'M	Fair value Level 2 HK\$'M	Carrying amount HK\$'M	Fair value Level 2 HK\$'M
Subordinated liabilities ¹	48,101	48,146	46,766	46,985

¹ The subordinated liabilities comprise of internal issuance grouped under amounts due to immediate holding company and amounts due to fellow subsidiaries (note 16).

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.

Loans and advances to banks

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.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and 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 by banks

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.

Notes to the consolidated financial statements continued

34. Financial instruments (continued)

(b) Valuation of financial instruments carried at amortised cost (continued)

Debt securities in issue

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 fellow subsidiaries".

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

	2021 HK\$'M	2020 HK\$'M
Collateral pledged against repurchase agreements		
On balance sheet		
Investment securities	41,920	25,184
Off balance sheet		
Repledged collateral received	2,403	552
	44,323	25,736
Balance sheet liabilities – repurchase agreements		
Deposits by banks	15,294	6,385
Customer accounts	16,018	18,324
Amount due to fellow subsidiaries	11,345	487
	42,657	25,196

(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.

	2021				
	Gross amounts of recognised financial assets 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	Related amounts not offset in the consolidated statement of financial position HK\$'M	Net amount HK\$'M
Assets					
Positive fair values of derivative financial instruments	76,891	(5,555)	71,336	(64,471)	6,865
Reverse repos, securities borrowing and similar agreements	109,367	–	109,367	(106,883)	2,484
	186,258	(5,555)	180,703	(171,354)	9,349

Notes to the consolidated financial statements continued

34. Financial instruments (continued)

(d) Offsetting financial assets and financial liabilities (continued)

Liabilities	2021					Net amount HK\$'M
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset 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		
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Negative fair values of derivative financial instruments	80,802	(5,555)	75,247	(11,108)		64,139
Repos and similar agreements	42,657	–	42,657	(17,766)		24,891
	123,459	(5,555)	117,904	(28,874)		89,030

Assets	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	Related amounts not offset in the consolidated statement of financial position		
	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
	184,604	–	184,604	(154,293)		30,311

Liabilities	2020					Net amount HK\$'M
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset 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		
	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
	174,051	–	174,051	(110,678)		63,373

Notes to the consolidated financial statements continued

34. Financial instruments (continued)

(d) Offsetting financial assets and financial liabilities (continued)

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.

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.

35. 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 2021, the Group had securities amounting to HK\$28,926 million (2020: HK\$20,030 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:

	2021 HK\$'M	2020 HK\$'M
Consolidated statement of financial position assets – reverse repos and securities borrowing		
Deposits by banks	1,103	3,393
Loans and advances to customers	35,629	4,629
Amounts due from fellow subsidiaries	72,635	49,924
	109,367	57,946

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:

	2021 HK\$'M	2020 HK\$'M
Securities and collateral that can be repledged or sold (at fair value)	107,418	56,645
Thereof repledged/transferred to others under repos (at fair value)	2,403	552

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

36. 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:

	2021 HK\$'M	2020 HK\$'M
Short-term employee benefits	194	145
Post-employment benefits	9	6
Equity compensation benefits	63	18
Termination benefits	19	–
	285	169

Total employee staff costs during the year are included on 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.

	2021 HK\$'M	2020 HK\$'M
Loan balances:		
At 1 January	48	23
At 31 December	46	48
Average balance during the year	64	56
Income earned	1	1
Undrawn commitments	137	124

(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:

	2021 HK\$'M	2020 HK\$'M
Aggregate amount of relevant loans by the Group outstanding at 31 December	7	24
Maximum aggregate amount of relevant loans by the Group outstanding during the year	39	51

(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:

	2021 HK\$'M	2020 HK\$'M
Amounts due from associates and joint ventures	–	4
Deposits from associates and joint ventures	2,370	1,405
Amounts due to associates and joint ventures	1	–
Operating income	29	29
Notional amount of derivative contracts	12,142	1,003

Notes to the consolidated financial statements continued

37. Share based payments

SC PLC operates a number of share-based arrangements for its directors and employees.

2021 Standard Chartered Share Plan (the '2021 Plan') and 2011 Standard Chartered Share Plan (the '2011 Plan')

The 2021 Plan was approved by shareholders in May 2021 and is the SC PLC's main share plan, replacing the 2011 Plan for new awards, Jun 2021. It may be used to deliver various types of share awards, previously granted under the 2011 Plan:

(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.

(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-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 2021 Plan and 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2021 Plan during which new awards can be made is ten years. The 2011 Plan has expired and no further awards will be granted under this plan.

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

37. Share based payments (continued)

2021 Standard Chartered Share Plan (the 2021 plan) and 2011 Standard Chartered Share Plan (the 2011 plan)

Valuation – LTIP

The vesting of awards granted in both 2021 and 2020 is subject to relative 'TSR' performance measures, achievement of a strategic scorecard and satisfaction of RoTE (subject to a capital CET1 underpin). The vesting of award granted in 2021 has additional conditions under strategic measures related to targets set for sustainability linked to business strategy. 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 2020 or 2021 and the fair value takes this into account, calculated by reference to market consensus dividend yield.

Grant date	2021	2020
	15 March	9 March
Share price at grant date (£)	4.90	5.20
Vesting period (years)	3-7	3-7
Expected dividends (yield) (%)	3.4	4.2
Fair value (RoTE) (£)	1.25,1.20	1.40,1.34
Fair value (TSR) (£)	0.72,0.71	0.75,0.72
Fair value (Strategic) (£)	1.66,1.60	1.40,1.34

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 2021, the fair value of awards takes into account the lack of dividend equivalents, calculated by reference to market consensus dividend yield.

Grant date	2021				2020					
	21 June	15 March		22 June	30 March		9 March			
Share price at grant date (£)	4.69	4.90		4.27	4.67		5.2			
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)		
1-3 years	N/A,3.4	4.69,4.24	N/A,3.4,3.4	4.90,4.58,4.43	N/A	4.27	N/A,4.2	4.67,4.13	N/A,4.2,4.2	5.20,4.79,4.59
1-5 years	3.4	4.17	3.4,3.4,3.4	4.43,4.36,4.29	-	-	4.2	4.04	4.2,4.2	4.59,4.50
3-7 years	-	-	3.4,3.4	4.15,4.01	-	-	-	-	4.2,4.2	4.23,4.06

Notes to the consolidated financial statements continued

37. Share based payments (continued)

Restricted Share Awards

Grant date	2021							
	30 September		21 June		15 March			
Share price at grant date (£)	4.37		4.69		4.90			
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	3.4	4.23	3.4	4.53	3.4	4.74		
2 years	3.4	4.09	3.4	4.38	3.4	4.58		
3 years	3.4	3.95	3.4	4.24	3.4	4.43		
4 years	3.4	3.82	3.4	4.10	3.4	4.29		
5 years	3.4	3.70	-	-	-	-		

Grant date	2020							
	26 November		30 September		22 June		09 March	
Share price at grant date (£)	4.71		3.52		4.27		5.20	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	4.2	4.34,4.52	4.2	3.38	4.2	4.10	4.2	4.99
2 years	4.2	4.16,4.34	4.2	3.24	4.2	3.93	4.2	4.79
3 years	4.2	4.16	4.2	3.11	4.2	3.77	4.2	4.59
4 years	4.2	4.00	4.2	2.98	4.2	3.62	4.2	4.41
5 years	-	-	-	-	4.2	3.48	4.2	4.23

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	2021	2020
	30 September	30 September
Share price at grant date (£)	4.37	3.52
Exercise price (£)	3.67	3.14
Vesting period (years)	3	3
Expected volatility (%)	35.1	31.8
Expected option life (years)	3.33	3.33
Risk free rate (%)	0.42	(0.07)
Expected dividends (yield) (%)	3.4	4.2
Fair value (£)	1.11	0.69

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.

Notes to the consolidated financial statements continued

37. Share based payments (continued)

Reconciliation of share award movements for the year to 31 December 2021

	LTIP	Deferred/ Restricted shares	PSP	2013 Sharesave	Weighted average Sharesave exercise price (£)
Outstanding at 1 January 2021	2,263,726	5,609,032	4,706	8,062,939	4.32
Granted	263,007	2,491,708	-	1,596,545	3.67
Lapsed	(1,877,629)	(265,020)	-	(1,649,938)	5.37
Exercised	(12,838)	(2,073,588)	(3,839)	(875)	3.14
Outstanding at 31 December 2021	636,266	5,762,132	867	8,008,671	3.96
Exercisable at 31 December 2021	-	405,766	867	1,468,241	
Range of exercise prices (£)	-	-	-	3.14 – 5.13	
Weighted average contractual remaining life (years)	7.98	7.98	0.20	2.08	

Reconciliation of share award movements for the year to 31 December 2020

	LTIP	Deferred/ Restricted shares	PSP	2013 Sharesave	Weighted average Sharesave exercise price (£)
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	

38. 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.

39. 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.

Notes to the consolidated financial statements continued

39. Significant accounting estimates and judgements (continued)

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 34 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.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2021

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 2021 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Amendments to HKFRS 9/IFRS 9 Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities

In May 2020 the HKICPA/IASB published its 2018-2020 annual improvements process which provides non-urgent but necessary amendments to HKFRS/IFRS. This publication included changes to HKFRS 9/IFRS 9 that will be effective prospectively from 1 January 2022, with early adoption permitted. Under these amendments, when assessing changes in terms of a financial liability, the only fees considered in the assessment of whether the terms of a new or modified financial liability are substantially different (i.e. a change in present value of more than 10 per cent) from the terms of the original financial liability are fees paid or received between the borrower or lender. This includes fees paid or received by either the borrower or lender on the other's behalf. The effect of these amendments is not expected to be material to the Group's financial statements.

Definition of Accounting Estimates – Amendments to HKAS/IAS 8

In February 2021, the HKICPA/IASB issued amendments to HKAS/IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Notes to the consolidated financial statements continued

41. Comparative amounts

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

42. Statement of financial position of the Bank as at 31 December 2021

	2021 HK\$'M	2020 HK\$'M
Assets		
Cash and balances at central banks	25,040	7,161
Loans and advances to banks	67,990	80,787
Hong Kong SAR Government certificates of indebtedness	56,791	56,561
Financial assets at fair value through profit or loss	132,499	123,774
Investment securities	303,356	298,507
Loans and advances to customers	633,698	560,668
Amounts due from fellow subsidiaries	208,776	239,931
Amounts due from subsidiaries of the Bank	25,757	36,231
Investments in subsidiaries of the Bank	50,580	47,871
Interest in an associate	3,168	3,168
Property, plant and equipment	4,939	4,804
Goodwill and intangible assets	3,036	2,351
Current tax assets	719	–
Other assets	27,134	25,557
	1,543,483	1,487,371
Liabilities		
Hong Kong SAR currency notes in circulation	56,791	56,561
Deposits by banks	35,977	34,300
Customer accounts	1,090,058	1,037,563
Financial liabilities at fair value through profit or loss	41,267	32,448
Amounts due to immediate holding company	38,313	36,940
Amounts due to fellow subsidiaries	97,537	108,854
Amounts due to subsidiaries of the Bank	7,961	11,965
Current tax liabilities	–	1,581
Deferred tax liabilities	153	57
Other liabilities	41,220	33,777
	1,409,277	1,354,046
Equity		
Share capital	65,025	65,025
Reserves	52,448	51,567
Shareholders' equity	117,473	116,592
Other equity instruments	16,733	16,733
	134,206	133,325
	1,543,483	1,487,371

Approved and authorised for issue by the Board of Directors on 17 February 2022.

HUNG Pi Cheng Benjamin
Director

Saleem RAZVI
Director

Notes to the consolidated financial statements continued

43. Statement of changes in equity of the Bank for the year ended 31 December 2021

	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 HK\$'M	Other equity instruments HK\$'M	Total HK\$'M
At 1 January 2020	65,025	(30)	(382)	187	210	154	50,645	115,809	8,983	124,792
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	65,025	(7)	(368)	862	138	154	50,788	116,592	16,733	133,325
Total comprehensive income	-	7	280	(604)	84	32	3,900	3,699	-	3,699
Dividend paid	-	-	-	-	-	-	(3,021)	(3,021)	-	(3,021)
Movement in respect of share-based compensation plans	-	-	-	-	-	-	203	203	-	203
Transfer to retained profits	-	-	-	-	-	(32)	32	-	-	-
At 31 December 2021	65,025	-	(88)	258	222	154	51,902	117,473	16,733	134,206

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 2021.

Organisational and governance structure and policies

Board Composition

Chairman

Edward Martin WILLIAMS

Executive Directors

HUNG Pi Cheng Benjamin
Gregory John POWELL (resigned on 22 June 2021)
Saleem RAZVI (appointed on 22 June 2021)
Darren Suk KIM
HUEN Wai Yi Mary
HAU Yee Mann

Non-Executive Directors

Edward Martin WILLIAMS
LEE Cheuk Kuen Gloria
Michael Andres GORRIZ (resigned on 31 December 2021)

Independent Non-Executive Directors

FONG Ching
Stephen Robert ENO
CHENG Wai Sun Edward
TUNG Lieh Cheung Andrew
LEONG Kwok Kuen Lincoln (appointed on 4 June 2021)

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 counterparty 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.

HUNG Pi Cheng Benjamin

Executive Director and 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 was appointed CEO, Asia on 1 January 2021. He sits on the Group's Management Team and is the Chairman of Standard Chartered Bank (China) Limited and Standard Chartered Bank (Singapore) Limited.

Mr. Hung joined Standard Chartered in 1992 and has held a number of senior management positions spanning corporate and retail banking. Prior to his current role, Mr. Hung was Regional CEO for Greater China & North Asia and CEO for the Bank's Retail Banking and Wealth Management businesses globally. He is currently based in Hong Kong and has international banking experience in the United Kingdom and in Canada. Ben was previously chairman of the Hong Kong Association of Banks, a member of the Financial Services Development Council and a board member of the Hong Kong Airport Authority and the Hong Kong Hospital Authority. He was also a Council Member of the Hong Kong University.

Mr. Hung is an independent non-executive director of the Hong Kong Exchanges and Clearing Limited and a member of the Hong Kong Chief Executive's Council of Advisers on Innovation and Strategic Development. He also sits on the Exchange Fund Advisory Committee and is a member of the General Committee of the Hong Kong General Chamber of Commerce. He is a strategic advisor at the International Consultative Conference on the Future Economic Development of Guangdong Province.

He holds a Master of Business Administration from University of Toronto and a Bachelor of Arts in Business Administration from University of Washington.

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)

HUEN Wai Yi Mary

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 (CEO) for Hong Kong in March 2017 and took on an expanded role as the Cluster CEO for Hong Kong, Taiwan and Macau in January 2021. She joined the Standard Chartered Group's Management Team in December 2021. She sits on the board of Standard Chartered Bank (Taiwan) Limited and is chairperson of Mox Bank Limited since its inception.

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.

Ms. Huen is the chairperson of the Hong Kong Association of Banks, a member of the Banking Advisory Committee of the Hong Kong Monetary Authority, the Financial Infrastructure and Market Development Sub-Committee and the Currency Board Sub-Committee under the Exchange Fund Advisory Committee. She is also a representative of Hong Kong, China to the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council, the chairperson of the Hong Kong Trade Development Council Financial Services Advisory Committee and the Asian Financial Forum Steering Committee, a board member of the Hong Kong Tourism Board and Hospital Authority.

Ms. Huen received a Bachelor of Arts degree from the University of Hong Kong.

Saleem RAZVI

Executive Director and Chief Financial Officer, Asia

Mr. Razvi was appointed to the Board on 22 June 2021 and appointed to the role of Chief Financial Officer, Asia in April 2021 based in Hong Kong. He joined Standard Chartered Bank in 2006 as Head of Finance, Hong Kong and went on to become Chief Financial Officer for Hong Kong and Greater China in 2010. He moved to the role of CFO Wholesale Bank in 2012 and then to the role of CFO, Corporate and Institutional Banking & Client Businesses in 2014. Immediately prior to his appointment to the current role, he was the Group Treasurer, based in Singapore but regularly spending time in London also.

Before joining Standard Chartered, Mr. Razvi was Chief Accounting Officer for HSBC Hong Kong and Asia Pacific. He worked for HSBC for twelve years in a variety of Finance related roles, with specialisation in Investment Banking and Financial Markets in Asia.

Mr. Razvi is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Science (Hons) in Theoretical Physics, University of London.

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)

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.

HAU Yee Mann

Executive Director and Chief Financial Officer, Hong Kong & Cluster Chief Financial Officer, Hong Kong, 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.

LEE Cheuk Kuen Gloria

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.

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)

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.

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.

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)

CHENG Wai Sun Edward

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, Chairman of the Council of the Hong Kong Academy for Performing Arts 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.

TUNG Lieh Cheung Andrew

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.

LEONG Kwok Kuen Lincoln

Independent Non-Executive Director

Mr. Leong was appointed to the Board in June 2021.

Mr. Leong was the former CEO of MTR Corporation Limited from 2015 to 2019, and previously as a Partner of Capital Z Asia Limited (Asian Private Equity), Head of Corporate Finance of Schroders Asia Ltd and worked in PricewaterhouseCoopers in London and Canada.

Mr. Leong is currently an Independent Non-Executive Director of SUNeVision Holdings Ltd and Link Asset Management Limited (Manager of Link Real Estate Investment Trust). His other public duties include Supervisory Board Member of Hong Kong Housing Authority, Executive Committee and Council Member of Hong Kong Management Association and Board and Executive Committee Member of Hong Kong Community Chest.

Mr. Leong is a Chartered Accountant of the Institute of Chartered Accountants in England and Wales and Canadian Institute of Chartered Accountants. He holds a Master and a Bachelor of Arts Degree from Cambridge University.

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 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 2021.

The below committees operate under the direct authority of the Board.

(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 eleven meetings in 2021.

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)

(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 four 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), Leong Kwok Kuen Lincoln (INED) and Lee Cheuk Kuen Gloria (NED).

The AC has held four scheduled meetings and one ad hoc meeting in 2021.

(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 four INEDs and two NEDs, namely, Stephen Robert Eno (BRC Chairperson and INED), Fong Ching (INED), Tung Lieh Cheung Andrew (INED), Leong Kwok Kuen Lincoln (INED), Edward Martin Williams (NED) and Lee Cheuk Kuen Gloria (NED).

The BRC has held four scheduled meetings and one ad hoc meeting in 2021.

(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 four INEDs and one ED, namely, Cheng Wai Sun Edward (NomCo Chairman and INED), Stephen Robert Eno (INED), Tung Lieh Cheung Andrew (INED), Leong Kwok Kuen Lincoln (INED) and Hung Pi Cheng Benjamin (ED).

The NomCo has held two scheduled meetings in 2021.

(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

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)

(f) Remuneration Committee (“RemCo”) (continued)

- (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 three scheduled meetings in 2021.

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, loss absorbing capacity, leverage, interest rate risk in the banking book (“IRRBB”), structural foreign exchange risk, 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. There were nine scheduled meetings and one ad hoc meeting held in 2021.

(b) Asia Risk Committee (“ARC”)

The ARC, 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 ARC 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 ARC is chaired by the Asia CRO with members including the Asia CEO, the Asia CFO, and the key business and risk management heads. There were in total six standing ARC meetings held in 2021.

(c) Pillar III Committee (“Pillar III”)

The Pillar III, through its authority delegated by the Board, is responsible for reviewing, approving and upholding 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 2021.

(d) Hong Kong Management Committee (“HKMANCO”)

The HKMANCO is responsible for the 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 heads of various businesses and functions of Hong Kong. There were ten HKMANCO meetings held in 2021.

Risk appetite

The details of the Group’s risk appetite are disclosed in note 33 to the consolidated financial statements.

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)

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 2021 are disclosed in notes 16 and 36 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 17 February 2022:

Anderson, Ian Charles
Anton, Nigel (resigned on 1 Jan 2021)
Au, Siu Luen
Bagga, Gaurav
Boland, Shelley
Chambers, Paul Stuart (resigned on 24 Feb 2021)
Chan, Wai Yee
Chan, Mignonne Man-jung
Chang, Wea Meng
Chen, Ban-Ren (Benny)
Cheung, Wai Hing
Cheung, Yup Fan
Chiu, Lerrence
Cho, Jin-Woo
Choi, Hee Nam
Chou, Han Yin
Chow, Frankie
Chua, Meng Keong
Corr, Kieran
Cui, Linying (resigned on 30 Mar 2021)
Daniels, Christopher John
Dubash, Hormusji
Ellis, Darren Paul
Feng, Yan
Gardiner, Simon William (resigned on 1 Oct 2021)
Gorriz, Michael Andres
Guvén, Deniz (resigned on 26 Sep 2021)
Hardacre, Andrew James
Hau, Yee Mann
Helme, Christopher David
Howard, Jonathan Davey
Huen, Mary Wai Yi
Hui, Helen S.
Hui, Hon Hing Susanna
Hung, Pi Cheng Benjamin
Jang, Jee In
Kellaway, Simon Mark
Kim, Darren Suk
Lai, Yan Hong
Lam, Hui Yip
Lee, Eun Hyung
Lee, Hoi Keung
Leow, Jinn Yiun
Lin, Anthony Yuen Tung (resigned on 27 Jan 2021)
Lin, Su-Chen (Kate)
Lizzimore, Richard Frederick David
Lyn, Frank Yee Chon
Ma, Kam Sing Allen
Malik, Shikkoh
McCallum, William
Mengal, Pierre Georges Joseph
Moylan, Peter
Natarajan Madhavamurti, Anjenakumar
Ng, Dantes Chau Shing (resigned on 11 Jun 2021)
Oh, Jong Nam (resigned on 8 Sep 2021)

Appendix II: directors of the Bank's subsidiaries continued

Pandey, Abhishek
Park, Alex
Park, Jong Bok
Powell, Gregory John
Puar, Wei Yong Eugene
Puri, Amit Kumar
Rai, Sandeep Singh
Razvi, Saleem
Sew, Simon Joseph
Shelley, John Peter
Sohn, Byoung Ok
Subberwal, Samir
Szeto, Ho Yin Jeffrey (resigned on 27 May 2021)
Tan, Ming Kiu John
Tanna, Amit Kishorchandra (resigned on 27 May 2021 for Standard Chartered Trade Support (HK) Limited; resigned on 6 Jul 2021 for Pembroke Aircraft Leasing Tianjin 1 Limited and Pembroke Aircraft Leasing Tianjin 2 Limited; resigned on 14 Jul 2021 for Pembroke Aircraft Leasing (Tianjin) Limited and resigned on 30 Jul 2021 for Marina Leasing Limited and Standard Chartered Leasing Group Limited)
Thang, Kai Chi John
Tiara Ltd (resigned on 2 Apr 2021)
Uygun, Barbaros
Wang, Jun (resigned on 1 Mar 2021)
Wang, Mike Wan Jun
Wong, Kenneth Koon Kan
Wong, Norbert Siew Hieng
Xie, Wen
Yang, Jeong Woo (Jason)
Yeung, Mei Chun Jeny
Yim, Mei Ling Carolyn (ceased on 16 Feb 2021)
Yuan, Wang
Zhang, Xiao Lei
Zhou, Jin Chuan