



Bank of Communications (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

2024 ANNUAL REPORT



CREATE SHARED VALUE

Contents

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
ANNUAL REPORT 2024

Report of the Directors	2
Independent Auditor’s Report	4
Statement of Profit or Loss and Other Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements	13
Unaudited Supplementary Financial Information	105

Report of the Directors

The board of directors of Bank of Communications (Hong Kong) Limited (the “Bank”) hereby submit their report with the audited financial statements for the year ended 31 December 2024.

Principal activity

The principal activity of the Bank is provision of banking services in Hong Kong.

Results and appropriations

The results of the Bank for the year are set out in the statement of profit or loss and other comprehensive income on page 8.

The board of directors do not recommend the payment of a dividend in respect of the year ended 31 December 2024.

Business Review

No business review was presented for the year ended 31 December 2024 as the Bank had been able to claim an exemption under section 388(3)(b) of the Companies Ordinance (Cap. 622) since it is a wholly-owned subsidiary of Bank of Communications Co. Ltd (incorporated in People’s Republic of China).

Donations

There were no charitable and other donations made by the Bank during the year (2023: HK\$Nil).

Share capital

There has been no new issue of share capital for the year ended 31 December 2024. Details of the share capital are set out in note 31 to the financial statements.

Directors of the Bank

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

Chairman:

Xiao Ting (appointed on 16 August 2024)

Hao Cheng (resigned on 20 May 2024)

Deputy Chairman:

Chan Ching Har Eliza (appointed on 9 September 2024)

Meng Yu (resigned on 9 January 2025)

Executive directors:

Xiao Ting (appointed on 16 August 2024)

Shan Jidong (appointed on 18 December 2024)

Meng Yu (resigned on 9 January 2025)

Non-executive directors:

Shan Zengjian (resigned on 26 March 2025)

Hao Cheng (resigned on 20 May 2024)

Wu Ye (resigned on 20 May 2024)

Report of the Directors

Directors of the Bank *(continued)*

Independent non-executive directors:

Chan Ka Lok
Tang Kwai Chang
Chan Ching Har Eliza
Lam Yim Nam

Hao Cheng resigned on 20 May 2024 as Chairman and Non-executive Director of the Bank, Wu Ye resigned on 20 May 2024 as Non-executive Director of the Bank, Meng Yu resigned on 9 January 2025 as Deputy Chairman and Executive Director of the Bank, Shan Zengjian resigned on 26 March 2025 as Non-executive Director of the Bank. Hao Cheng, Wu Ye, Meng Yu and Shan Zengjian had confirmed that they had no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

In accordance with the Bank's Articles of Association, the existing directors except Xiao Ting and Shan Jidong shall remain in the office.

Pursuant to Articles 23.2, 23.5 and 24 of the Bank's Articles of Association, Xiao Ting and Shan Jidong will retire and, being eligible to offer himself for election as director of the Bank at the forthcoming Annual General Meeting.

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Bank's business

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

Directors' interests in the shares and debentures of the Bank or any specified undertaking of the Bank

At no time during the year was the Bank, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Bank (including their spouse and children under 18 years of age) to hold any interests in the shares or debentures of, the Bank or its specified undertakings or other associated corporations.

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.

Permitted indemnity provisions

Pursuant to the Bank's Articles of Association, a director or former director of the Bank may be indemnified out of the Bank's assets against any liability incurred by the director to a person other than the Bank or an associated company of the Bank in connection with any negligence, default, breach of duty or breach of trust in relation to the Bank or associated company. The Bank has arranged appropriate directors' and officers' liability insurance for the directors and officers of the Bank during the year and up to the date of the Report of the Directors.

Auditor

A resolution for the re-appointment of KPMG as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Xiao Ting, Chairman

Hong Kong, 1 April 2025

Independent Auditor’s Report



To the members of Bank of Communications (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Bank of Communications (Hong Kong) Limited (the “Bank”) set out on pages 8 to 104, which comprise the statement of financial position as at 31 December 2024, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes comprising material accounting policy information and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis of 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 financial statements section of our report. We are independent of the Bank 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 matter is the matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Expected credit loss allowances on loans and advances to customers

Refer to note 3.1 and 19 to the financial statements and the accounting policies on page 30.

The Key Audit Matter	How the matter was addressed in our audit
<p>The total allowances for expected credit losses (“ECLs”) on the bank’s loans and advances to customers as at 31 December 2024 amounted to HK\$5,274 million, comprising of HK\$184 million, HK\$668 million and HK\$4,422 million in Stages 1,2 and 3 respectively. Refer to notes 3.1 and 19 to the Bank’s financial statements.</p> <p>ECL allowances of the Bank are determined based on management’s assessment of changes in credit quality of the loans and advances to customers since their initial recognition using a three-stage impairment model. Loan exposures are classified as Stage 1 when there is no significant increase in credit risk since initial recognition (“SICR”), for which a 12-month ECL allowance is recognized. Loan exposures that experience a significant increase in credit risk since initial recognition are classified as Stage 2 and those that are credit-impaired are classified as Stage 3. For loan exposures that are classified as Stage 2 or Stage 3, the loss allowance is measured at an amount equal to lifetime ECL.</p>	<p>Our audit procedures to assess the ECL allowance on loans and advances to customers included the following:</p> <ul style="list-style-type: none">• Understanding and assessing the design, implementation and operating effectiveness of key internal controls on the governance process over the ECL methodology and the assumptions used in the ECL models, including assessment of significant management judgements applied over SICR and internal credit ratings and determination of probability weighting assigned to economic scenarios and management judgemental adjustment, if any;• With the involvement of our information technology specialists, assessing the design, implementation and operating effectiveness of key internal controls over key data inputs into source systems, user access management, and interfaces between the source systems and financial reporting system in relation to the ECL assessment.

Independent Auditor's Report

Key Audit Matters *(continued)*

Expected credit loss allowances on loans and advances to customers *(continued)*

Refer to note 3.1 and 19 to the financial statements and the accounting policies on page 30.

The Key Audit Matter	How the matter was addressed in our audit
<p>For loans and advances to customers classified as Stage 1 or Stage 2, a risk parameter modelling approach applies, which considers the probability of default, loss given default, exposure at default, and adjustments for forward-looking information, including management's macro-economic forecasts ("MEFs") and their likelihoods. For loans and advances to customers in Stage 3, the ECL allowances are determined based on future cash flows expected to be received from those loans and advances.</p> <p>The application of the ECL modelling methodology and appropriateness of management's assumptions require ongoing assessment as part of the Bank's governance process and particularly essential under the pandemic situation.</p> <p>Determination of significant increase in credit risk, development of the ECL modelling methodology and inputs required significant management judgements.</p> <p>ECL allowances on loans and advances to customers across the banking industry continues to be an area of elevated focus because of the global economic outlook, including the economies of Hong Kong and Mainland China, and the recovery from the continuing impact of the COVID-19 pandemic.</p> <p>We identified the measurement of ECL allowances on loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Bank.</p>	<ul style="list-style-type: none">• With the assistance of our financial risk management specialists, assessing the appropriateness of the key assumptions in the ECL models, including the criteria used by management in determining loss stages, the probability of default, loss given default, adjustments for forward-looking information and other management adjustments, if any.• Assessing the accuracy of the loan information in the ECL model by comparing individual loan information, on a sample basis, with the underlying agreements and other related documentation;• Assessing, on a sample basis, the reasonableness of the SICR assessment as well as the internal credit ratings which in turn drives the probability of default used in the ECL calculation. Our assessment considered the financial and non-financial information of the borrowers, along with external information available, including adjusting events occurred after the year end of 31 December 2024, if any.

Independent Auditor's Report

Information other than the financial statements and auditor's report thereon

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

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

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

Responsibilities of the directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Independent Auditor's Report

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

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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank 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 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 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 Wong Po Shan.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1 April 2025

Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in thousands of HK\$ unless otherwise stated)

	Notes	Year ended 31 December	
		2024	2023
Interest income calculated using effective interest rate		22,447,653	22,521,328
Interest expense		(12,944,592)	(13,580,880)
Net interest income	4	9,503,061	8,940,448
Fee and commission income	5	1,038,857	986,754
Fee and commission expense	6	(70,602)	(75,636)
Net fee and commission income		968,255	911,118
Net losses arising from trading activities	8	(214,290)	(786,989)
Net losses arising from financial investments		(320,874)	(381,279)
Dividend income	7	150	35
Other operating income	9	28,281	50,422
Change in expected credit losses	10	(1,032,288)	(4,056,148)
Other operating expenses	11	(1,953,223)	(1,854,026)
Profit before tax		6,979,072	2,823,581
Income tax expenses	14	(1,151,295)	(417,507)
Net profit for the year		5,827,777	2,406,074
Other comprehensive income for the year, net of tax			
Item that will not be reclassified subsequently to profit or loss:			
Equity investments at fair value through other comprehensive income – net change in fair value		500	830
Items that may be reclassified to profit or loss:			
Debt investments at fair value through other comprehensive income			
Net gains recorded in equity		190,603	870,317
Net losses reclassified from equity to profit or loss		267,930	318,368
Net (losses)/gains arising from cash flow hedge		(24,782)	4,161
Other comprehensive income for the year		434,251	1,193,676
Total comprehensive income for the year		6,262,028	3,599,750

The notes on pages 13 to 104 form a part of these financial statements.

Statement of Financial Position

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		As at 31 December	
	Notes	2024	2023
ASSETS			
Cash and balances with central bank	15	1,864,846	1,694,274
Due from and placements with banks and other financial institutions	16	33,021,581	24,176,735
Financial assets at fair value through profit or loss	17	9,501,189	10,353,084
Financial assets at amortized cost	20	46,955,952	46,685,972
Financial assets at fair value through other comprehensive income	20	141,642,473	141,280,949
Loans and advances to customers	19	192,723,750	191,991,477
Fixed assets	21	155,596	75,280
Current tax assets		–	5,100
Right-of-use assets	23	212,532	253,691
Other assets	24	7,570,611	8,437,802
Total assets		433,648,530	424,954,364
LIABILITIES			
Due to banks and other financial institutions	25	23,744,827	17,044,251
Due to customers	26	330,593,006	333,327,098
Financial liabilities at fair value through profit or loss	27	1,889,524	2,703,827
Certificates of deposits issued	28	111,480	1,788,345
Current tax liabilities		748,456	–
Deferred tax liabilities	22	127,641	82,774
Lease liabilities	23	218,723	261,695
Debt securities issued	29	7,764,376	7,809,900
Other liabilities	30	8,330,430	7,932,919
Total liabilities		373,528,463	370,950,809
EQUITY			
Share capital	31	37,900,000	37,900,000
Other reserves		1,536,143	1,101,892
Retained earnings		16,812,474	11,130,213
Equity attributable to shareholder of the Bank		56,248,617	50,132,105
Additional equity instrument	32	3,871,450	3,871,450
Total equity		60,120,067	54,003,555
Total equity and liabilities		433,648,530	424,954,364

The financial statements were approved and authorized for issuance by the Board of Directors on 1 April 2025 and signed on its behalf by:

Xiao Ting, Director

Shan Jidong, Director

The notes on pages 13 to 104 form a part of these financial statements.

Statement of Changes in Equity

(All amounts expressed in thousands of HK\$ unless otherwise stated)

Notes	Other reserves			Retained earnings (Note)	Equity attributable to shareholder of the Bank	Additional equity instrument	Total equity
	Share capital	Cash flow hedge reserve	Others				
At 1 January 2024	37,900,000	4,161	1,097,731	11,130,213	50,132,105	3,871,450	54,003,555
Net profit for the year	–	–	–	5,827,777	5,827,777	–	5,827,777
Other comprehensive income	–	(24,782)	459,033	–	434,251	–	434,251
	37,900,000	(20,621)	1,556,764	16,957,990	56,394,133	3,871,450	60,265,583
Dividends paid to additional equity instrument holders 32	–	–	–	(145,516)	(145,516)	–	(145,516)
At 31 December 2024	37,900,000	(20,621)	1,556,764	16,812,474	56,248,617	3,871,450	60,120,067
At 1 January 2023	37,900,000	–	(91,784)	8,870,254	46,678,470	3,871,450	50,549,920
Net profit for the year	–	–	–	2,406,074	2,406,074	–	2,406,074
Other comprehensive income	–	4,161	1,189,515	–	1,193,676	–	1,193,676
	37,900,000	4,161	1,097,731	11,276,328	50,278,220	3,871,450	54,149,670
Dividends paid to additional equity instrument holders 32	–	–	–	(146,115)	(146,115)	–	(146,115)
At 31 December 2023	37,900,000	4,161	1,097,731	11,130,213	50,132,105	3,871,450	54,003,555

Note:

In accordance with the requirements of the Hong Kong Monetary Authority (the “HKMA”), the regulatory reserve is set aside for general banking risks, including future losses or other unforeseeable risks. The regulatory reserve is set up in compliance with the HKMA’s requirements and is distributable to shareholder of the Bank subject to consultation with the HKMA. As at 31 December 2024, HK\$994,621,000 (2023: HK\$1,262,639,000) was earmarked as the regulatory reserve from the retained earnings.

The notes on pages 13 to 104 form a part of these financial statements.

Statement of Cash Flows

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Year ended 31 December	
	Notes	2024	2023
Cash flows from operating activities:			
Profit before tax		6,979,072	2,823,581
Adjustments for:			
Change in expected credit losses	10	1,032,288	4,056,148
Depreciation and amortization	11	70,591	42,051
Depreciation of right-of-use assets	11	164,097	155,195
Interest expense on lease liabilities	11	5,133	4,356
Interest expense for debt securities issued		179,787	180,397
Loss on disposal of fixed assets		2,177	64
Interest income from financial investments		(7,444,125)	(7,307,511)
Fair value gains		(4,391,911)	(4,358,141)
Dividend income	7	(150)	(35)
Net losses arising from financial investments		320,874	381,279
Effect of changes in exchange rates and others		(45,563)	12,120
Release of cash flow hedge reserve to profit or loss		(6,124)	2,185
Operating cash flows before movements in operating assets and liabilities		(3,133,854)	(4,008,311)
Net (increase)/decrease in due from and placements with banks and other financial institutions		(9,467,447)	5,470,413
Net decrease in financial assets at fair value through profit or loss		4,471,870	4,675,989
Net (increase)/decrease in loans and advances to customers		(1,590,006)	12,212,774
Net decrease/(increase) in other assets		825,179	(1,364,365)
Net increase/(decrease) in due to banks and other financial institutions		6,700,576	(41,249,622)
Net (decrease)/increase in financial liabilities at fair value through profit or loss		(814,303)	709,514
Net decrease in due to customers		(2,734,092)	(4,891,352)
Net (decrease)/increase in certificates of deposits issued		(1,676,595)	32,567
Net increase/(decrease) in other liabilities		399,292	(247,096)
Income tax paid		(439,406)	(504,362)
Net cash outflows from operating activities		(7,458,786)	(29,163,851)

The notes on pages 13 to 104 form a part of these financial statements.

Statement of Cash Flows

(All amounts expressed in thousands of HK\$ unless otherwise stated)

	Notes	Year ended 31 December	
		2024	2023
Cash flows from investing activities:			
Purchase of financial investments		(77,890,585)	(61,598,421)
Disposal or redemption of financial investments		78,179,764	88,598,278
Dividend received		150	35
Interest received from financial investments		7,394,820	7,280,369
Purchase of fixed assets	21	(132,129)	(35,389)
Disposal of fixed assets		20	–
Purchase of intangible assets	24(a)	(43,132)	(54,730)
Net cash inflows from investing activities		7,508,908	34,190,142
Cash flows from financing activities:			
Principal elements of lease payments		(163,644)	(150,041)
Interest paid for lease		(5,133)	(4,356)
Interest paid for debt securities issued		(180,291)	(180,262)
Dividend paid to additional equity instrument holders		(145,516)	(146,115)
Net cash outflows from financing activities		(494,584)	(480,774)
Net (decrease)/increase in cash and cash equivalents		(444,462)	4,545,517
Cash and cash equivalents at the beginning of the year		18,709,839	14,164,322
Cash and cash equivalents at the end of the year	34	18,265,377	18,709,839
Net cash flows from operating activities include:			
Interest received		10,829,156	10,530,845
Interest paid		(13,621,451)	(13,375,591)

The notes on pages 13 to 104 form a part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

1 GENERAL

Bank of Communications (Hong Kong) Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong. The address of its registered office is 20 Pedder Street, Central, Hong Kong and principal place of business is Unit B B/F & G/F, Unit C G/F, 1-3/F, 16/F Rm01 & 18/F Wheelock House, 20 Pedder Street, Central, Hong Kong. Its ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People's Republic of China.

The regulatory disclosure information required under the Banking (Disclosure) Rules is available in the Regulatory Disclosures Section of our website www.hk.bankcomm.com.

This annual report and those regulatory disclosure information are prepared according to the Bank's disclosure policy. The disclosure policy sets out a robust mechanism for the Bank's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure that all the information disclosed is in compliance with the principles of legality, completeness, timeliness, accuracy, fairness, integrity and materiality.

2 MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The Bank adopts the going concern basis in preparing its financial statements.

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

2.1.1 New and revised HKFRSs effective by 1 January 2024 applied by the Bank

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 7	Supplier Finance Arrangements

The amendments listed above did not have any material impacts on the Bank's financial statements and did not require retrospective adjustments.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2024 reporting periods and have not been early adopted by the Bank. The Bank is in the process of assessing the impact of the adoption of these standards.

		Effective for annual period commencing on or after
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027

Amendments to HKFRS 9 and HKFRS 7 – Amendments to the Classification and Measurement of Financial Instruments

- The amendments to HKFRS 9 provide clarification regarding the classification of financial assets with contingent features and the requirements for classifying financial assets with non-recourse features and contractually linked instruments. The amendments also introduce an accounting policy option for entities to derecognize financial liabilities that are settled through an electronic payment system before settlement date if specified criteria are met.
- The amendments to HKFRS 7 require entities to provide additional disclosure regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features.

HKFRS 18 – Presentation and Disclosure in Financial Statements

- HKFRS 18 supersedes HKAS 1 “Presentation of Financial Statements”. The new standard aims to improve entities’ reporting of financial performance and give investors a better basis for analysing and comparing entities by introducing presentation of new defined subtotals in the statement of profit or loss, disclosures about management-defined performance measures, and enhanced requirements for grouping of information.

2.2 Material Accounting Policies

2.2.1 Interest income and expense

Interest income and expense are recognized in profit or loss for interest-bearing financial instruments classified under amortized cost and fair value through other comprehensive income using the effective interest method.

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

- Purchased or originated credit-impaired (“POCI”) financial assets – assets that are credit-impaired (see definition on note 3.1.2.2) at initial recognition, for which the interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost (i.e. net of the expected credit loss allowance) of the financial asset from initial recognition.
- Financial assets that are not POCI financial assets but subsequently have become credit-impaired financial assets, for which the interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.2 Fee and commission income

Fee and commission income is recognized when the Bank fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service.

For the performance obligations satisfied at a point in time, the Bank recognizes revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Bank recognizes revenue according to the progress toward satisfaction of the obligation over the time.

2.2.3 Dividend income

Dividends are recognized when the right to receive the dividends is established.

2.2.4 Financial instruments

Measurement methods

Initial recognition and measurement

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

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss for the period.

Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognized for financial assets measured at amortized cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognized in profit or loss for the period when an asset is newly originated.

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For POCI financial assets, the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted cash flows using the original effective interest rate. Any changes are recognized in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.1 Financial assets

(a) Classification and subsequent measurement

The Bank has classified its financial assets in the following measurement categories:

- Amortized cost;
- Fair value through other comprehensive income ("FVOCI"); or
- Fair value through profit or loss ("FVTPL").

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- The Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured from these financial assets. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.
- **Fair value through other comprehensive income:** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in "Net gains/losses arising from financial investment". Interest income from these financial assets is recognized in profit or loss and included in "Interest income" using the effective interest rate method.
- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment, which is subsequently measured at fair value through profit or loss and is not part of a hedging relationship, is recognized in profit or loss and included in "Net gains/losses arising from trading activities" in the period in which it arises.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.1 Financial assets *(continued)*

(a) Classification and subsequent measurement (continued)

Debt instruments *(continued)*

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

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

When, and only when, the Bank changes the business model for managing its financial assets, shall it reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Bank does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as fair value through other comprehensive income when those investments are held for purposes other than to sell. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as "Dividend income" when the Bank's right to receive payments is established.

Gains and losses on equity investments at fair value through profit or loss are recognized in the profit or loss as "Net gains/losses arising from trading activities".

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.1 Financial assets *(continued)*

(b) Impairment

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and fair value through other comprehensive income and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognizes an ECL allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Regarding these judgement and estimates, please refer to note 3.1 Credit risk management and note 3.1.2 provides details of how the ECL allowance is measured.

(c) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.1 Financial assets *(continued)*

(d) Derecognition other than on a modification

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

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

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Bank retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Bank neither transfers nor retains substantially all the risks and rewards of ownership, and the Bank has retained control of the transferred assets, the Bank applies continuing involvement approach. Under this approach, the Bank continues to recognize the transferred asset to the extent of its continuing involvement and recognize the associated liability, to reflect the rights and obligations retained by the Bank. The net carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Bank, if the transferred asset is measured at amortized cost; or (b) equal to the fair value of the rights and obligations retained by the Bank when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.2 Financial liabilities

(a) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortized cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Bank recognizes any expenses incurred on the financial liability; when continuing involvement approach applies, see note 2.2.4.1(d); and
- Financial guarantee contracts and loan commitments (see note 2.2.5).

(b) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.4 Financial instruments *(continued)*

2.2.4.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, the below conditions are met:

- The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; and
- If the financial instrument will or may be settled in the Bank's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Bank to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Bank are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.2.4.4 Offset financial assets and liabilities

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

2.2.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees contracts are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the profit or loss.

The impairment allowance of loan commitments provided by the Bank is measured by ECL. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the ECL allowance is reported in other liabilities. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the ECL allowance of the undrawn commitment component from those of the loan component, the ECL allowance for the undrawn commitment is recognized together with the ECL allowance for the loan. To the extent that the combined ECL allowance exceeds the gross carrying amount of the loan, the ECL allowance is reported in other liabilities.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.6 Derivative financial instruments and hedge accounting

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

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

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

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

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognized in the profit or loss as "Net gains/losses arising from trading activities".

The Bank documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment of hedging effectiveness both at hedge inception and on an ongoing basis, that is, the extent to which changes in the fair value or cash flow of the hedge instrument can offset the changes in fair values or cash flows of hedged items resulting from the hedge risk.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite directions because of the same risk, which is the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.6 Derivative financial instruments and hedge accounting *(continued)*

Possible sources of ineffectiveness are as follows:

- Increase or decrease in the amounts of hedged items or hedging instruments;
- Significant changes in counterparties' credit risk.

The Bank discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of profit or loss, together with 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 amortized to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognized asset or liability or a highly probable forecast transaction, and could affect profit or loss.

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

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported. 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 recognized in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognized hedged asset is disposed of), the cumulative gain or loss previously recognized in other comprehensive income is immediately reclassified to the statement of profit or loss.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 18. Movements in the hedging reserve in shareholder's equity are shown in statement of changes in equity.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.7 Assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a pre-determined price on a specified future date are not derecognized in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

2.2.8 Fixed assets

The Bank’s fixed assets mainly comprise equipment, transportation equipment and property improvement.

The assets purchased are initially measured at acquisition cost.

Subsequent expenditures incurred for the fixed assets are included in the cost of the fixed assets if it is probable that economic benefits associated with the asset will flow to the Bank and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets over their estimated useful lives. The useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

The estimated useful lives of equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives
Equipment	5 years
Transportation equipment (excluding equipment under operating leases)	3 years
Property improvement	Over the shorter of the economic useful lives and remaining lease terms

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.2.9 Repossessed assets

Repossessed assets are initially recognized at lower of fair value less cost to sell or amortized cost of the corresponding debt at the date of repossession and included in other assets. At each reporting date, repossessed assets are subsequently measured at lower of fair value less cost to sell and the carrying amount. When the fair value less cost to sell is lower than the carrying amount, an impairment loss is recognized in profit or loss.

When a repossessed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognized in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.10 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, the Bank reviews the useful life and amortization method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2.2.11 Impairment of non-financial assets

At the end of each reporting period, the Bank assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset.

Intangible assets with indefinite useful life are tested for impairment annually, irrespective of whether there is any indication of impairment.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Bank determines the recoverable amount based on the cash-generating unit ("CGU") to which the asset belongs.

CGU is the smallest identifiable group of assets, and the cash inflows generated by a CGU are largely independent from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Bank considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized as an impairment loss and charged to the profit or loss immediately.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.12 Leases

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

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

On the lease commencement date, the Bank recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term shorter than 12 months and leases of asset with low value. For short-term leases and leases of low-value assets, the Bank recognizes the lease payments as an expense on a straight-line basis in profit or loss over the lease term rather than recognizing the right-of-use assets and lease liabilities.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- Amounts expected to be payable by the Bank under residual value guarantees.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. When the recoverable value is lower than the book value of the right-of-use asset, the Bank reduces the book value to the recoverable value.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.12 Leases *(continued)*

The Bank accounts for a modification to a finance lease as a separate lease if both:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Bank remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate. The Bank decreases the carrying amount of the right-of-use asset for lease modifications that decrease the scope or term of the lease, and recognizes the gain or loss relating to the partial or full termination of the lease in profit or loss. The Bank makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

2.2.13 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than three months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.2.14 Provisions

Provisions are recognized when the Bank has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

2.2.15 Income taxes

Income tax expenses represent the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are non-taxable or non-deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.15 Income taxes *(continued)*

(b) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred taxes are recognized in profit or loss, except when they are related to items that are recognized in other comprehensive income, in which case the current and deferred taxes are also recognized in other comprehensive income.

2.2.16 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.2.17 Fiduciary activities

In activities where the Bank acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Bank's financial statements.

The Bank conducts entrusted lending for the third-party lenders. The Bank grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Bank is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Bank does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted loans, the entrusted loans are not recognized as assets and liabilities of the Bank.

2.2.18 Acceptances

Acceptances comprise the Bank's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.2 Material Accounting Policies *(continued)*

2.2.19 Employee benefits

(a) Employee leave entitlements

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leaves that are expected to be wholly settled within 12 months after the end of the period in which the employees render the related services are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(b) Retirement benefit schemes

The Bank contributes to defined contribution schemes under either recognized Occupational Retirement Schemes Ordinance ("ORSO") Schemes or Mandatory Provident Fund ("MPF") Schemes that are available to the Bank's employees. Contributions to the schemes by the Bank and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. When an employee leaves the Bank prior to his/her interest in the Bank's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Bank may be reduced by the relevant amount of forfeited contributions.

The assets of the schemes are held in independently-administered funds separate from those of the Bank.

2.2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the senior management team represented by the Chief Executive as its chief operating decision maker.

An operating segment is a component of the Bank with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Bank. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Inter-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

2.2.21 Foreign currency translation

HK\$ is the currency of the primary economic environment in which the Bank operates. Therefore, the Bank chooses HK\$ as their functional currency and adopts HK\$ to prepare its financial statements.

In preparing the financial statements, transactions in currencies other than the functional currency (foreign currencies) are recorded in the functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

At the reporting date, foreign currency monetary items are translated into HK\$ using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognized in profit or loss for the period except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting and (2) exchange differences arising from fair value through other comprehensive income non-monetary items denominated in foreign currencies and changes in the carrying amounts (other than the amortized cost) of fair value through other comprehensive income monetary items are recognized as other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 MATERIAL ACCOUNTING POLICIES *(continued)*

2.3 Critical accounting estimates and judgements in applying accounting policies

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing these financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were as follow:

(a) Measurement of the ECL allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1.2 specifies the inputs, assumptions and estimation techniques used in measuring the ECL and also discloses the sensitivity of ECL to changes in these factors.

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

- Determining criteria for significant increase in credit risk;
- Applying management judgemental adjustment to take into account for the model and data limitations, and expert judgement applied after management's review and challenge;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 3.1.2.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practicable, valuation techniques use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors. Business Units act as the first line of defense in risk management while the Risk Management Department undertakes the main risk management operational functions of the Bank. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Bank are credit risk, liquidity risk, market risk and operational risk, etc. Market risk also includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

Credit risk, the risk that a borrower or counterparty of the Bank will be unable or unwilling to honor a repayment obligation, is one of the key risks encountered by the Bank as the Bank's main business is still dominated by credit business such as lending, billing and stock financing. If credit deterioration or default occurs, it will cause certain losses and affect the Bank's business stability. Therefore, the risk must be strictly monitored. Starting with quality of business, the monitoring approach includes not only rigorous credit review but also ongoing post-lending monitoring. This ensures that the non-performing loan ratio is less than risk tolerance and there is sufficient provision for coverage. The Bank manages and controls the overall credit risk in a prudent manner and reports regularly to the senior management and the Board of Directors of the Bank.

3.1.1 Credit risk management

The Bank's credit risk management is carried out by all front-line business departments, including major functions such as Corporate Business Management Department, Retail Business Management Department, Credit Card Centre, Credit Management Department, Retail Credit Management Department, Risk Management Department and Financial Management Department. They are responsible for the standardized management of corporate and retail credit businesses in terms of credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and non-performing loan management.

(a) Loans and advances to customers

As for corporate loans, the Bank's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and completing initial internal rating. The Bank adopts the hierarchical approval system based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Bank keeps a close eye on the economic and financial trend and credit risk profile in the industry, provides more guidance on credit investment, and formulates guidance for different industries. It strengthens daily risk pre-warning, monitoring and specific risk investigation, identifies customers under major risks and material potential risk points, and makes improvements in post-loan management to enhance the refinement of post-loan management in a practical manner. The Credit Management Department shall independently review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for credit line. The Bank's relationship manager is the person primarily responsible for post-loan management. The Bank adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. To minimize the losses arising from credit risks, the Bank manages NPLs mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantor; (4) litigation or arbitration; and (5) write-off pursuant to regulations and requirements.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

(a) Loans and advances to customers (continued)

For retail credit assets, the Bank adopts categorized management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days. Retail credit businesses overdue for longer than a certain period of time shall be managed as impaired assets and relevant impairment allowance shall be provided for such assets.

Credit Card Centre accounted for independently by the Bank is in charge of the operation and management of credit card business. Credit Card Centre of the Bank adopts a dual approach of supervision and risk prevention. It enhances risk prevention in the approval process through reinforced data cross-validation, tightens credit lines for high risk customers through secondary credit investigation to initiate the collection process earlier than scheduled, deploys collection resources in a rational manner to significantly enhance collection efficiency, and optimizes data analytic system to further advance the refined management of credit card business.

(b) Treasury business

For treasury business, the Bank manages the credit risk exposed to the treasury business by choosing banks and other financial institutions prudently, balancing the credit risk and return of investments, making reference to internal and external credit rating information, adopting hierarchical credit and using an appropriate credit limit management system to review and adjust credit lines.

For debt investments, internal and external credit ratings (such as Standard and Poor's) are adopted by the Bank when managing the credit risk exposed to debt investments and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available funding sources. The bond issuers involved are subject to the unified credit granting review and approval of the Bank's Global Markets Department and are also subject to our credit limit management.

As for derivative instruments, the Bank maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), and the said amount, which is in relation to derivative instruments, is only a fraction of the contract's notional amount. This credit risk exposure is managed as part of the overall lending limits for customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Bank requires margin deposits from counterparties. The management has set limits of contracts based on counterparties, and regularly monitors and controls the actual credit risk when the Bank concludes foreign exchange and interest rate contracts with other financial institutions and clients.

As for due from and placements with banks and other financial institutions, the Bank manages the credit quality of counterparties by considering the size, financial position and the external credit rating of the banks and financial institutions. The Risk Management Department monitors and reviews the credit risk of due from and placements with banks and other financial institutions periodically. Limits are placed on different counterparties.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

(c) Credit-related commitments

Credit risk exposures to financial guarantees are treated the same as those of loans. However, commercial letters of credit are typically secured by the shipped goods to which they are related, resulting in lower risk compared with direct loans. Credit-related commitments are incorporated into the management of overall credit line granted to the applicant. For customers who exceed the credit lines or engage in infrequent transactions, the Bank shall require the applicant to provide appropriate guarantee to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the Guideline on Loan Classification System issued by the HKMA, the Bank has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Bank classifies loans into the following five categories: pass, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Bank classifies its loans and advances to customers are set out below:

Pass:	Loans for which borrowers are current in meeting commitments and for which the full repayment of interest and principal is not in doubt.
Special-mention:	Loans for which borrowers are experiencing difficulties which may threaten the Bank's position.
Substandard:	Loans for which borrowers are displaying a definable weakness that is likely to jeopardise repayment.
Doubtful:	Loans for which collection in full is improbable and the Bank expects to sustain a loss of principal and/or interest, taking into account the net realizable value of security.
Loss:	Loans which are considered uncollectable after all collection options (such as the realization of collateral or the institution of legal proceedings) have been exhausted.

Regarding risk, the loans and advances to customers are classified into five categories based on five categories of loan classification.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Credit risk management *(continued)*

(e) Credit risk measurement

The Bank has established an internal rating system to measure credit risk arising from default events.

The credit risk internal rating system considers the “probability of default” by debtors (or debts). This is similar to the approach used for the purpose of measuring Expected Credit Loss (“ECL”) under HKFRS 9. Please refer to note 3.1.2 for more details.

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilized credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

The Bank has compiled a comprehensive set of financial and other related factors to build an internal credit rating model. This model aims to assess the probability of default by means of historical data collection, data statistics and data analysis to evaluate the risk characteristics of the clients/debts prior to any default event. The internal rating model employs the principle of regression to predict the probability of default. This probability is then aligned with relevant rank of default risk, which is used to determine the borrower’s credit ranking within the internal rating system. To improve the accuracy and stability of the model, the Bank evaluates the model every three months and monitors the results by performing back testing and comparing the results from the model with the actual defaults observed from customers.

The above credit risk factors are taken into account to assess potential credit losses that may be incurred, and are integrated into the Bank’s daily operations.

For the retail business, the assets are categorized and credit risk is evaluated by aging analysis.

For the corporate business, the rating is determined at the borrower level. A relationship manager makes sure any updated or new information/credit assessments are incorporated into the credit system on an ongoing basis. In addition, information about the creditworthiness of the borrower is updated every year from various sources such as public financial statements. This update process will determine the revised internal credit rating and the probability of default.

For debt securities held in the Treasury portfolio, the credit grades assigned by external rating agencies are mapped to the master scale. This mapping process involves ongoing monitoring and updating of the published grades. The mapping to the master scale will determine the revised internal credit rating and the probability of default.

The Bank’s rating method comprises a system of 18 rating levels for instruments that are not in default (ranging from 1.1 to 1.4 and 2 to 15), along with a default class. The master scale designates a specific range of default probabilities for each rating category, which remains consistent over time. The rating methods undergo annual validation and recalibration, aligning them with the latest projections based on all actual observed defaults. For unrated exposures, the management determines an approximated probability of default (PD) to represent the default risk.

The Bank’s internal rating scale are set out below:

Internal Rating	PD Range	Description of Grade
1.1 – 4	0.03% – 0.53%	Investment Grade
5 – 11	0.53% – 14.07%	Standard Monitoring
12 – 15	14.07% – 99.99%	Special Monitoring
Default	100.00%	Default

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement

HKFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarized below:

If the credit risk on a financial instrument has not increased significantly since initial recognition, the financial instrument is classified in “Stage 1” and has its credit risk continuously monitored by the Bank.

If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but not yet deemed to be credit-impaired. Please refer to note 3.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.

If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”. Please refer to note 3.1.2.2 for a description of how the Bank defines credit-impaired and default.

Financial instruments in Stage 1 have their ECLs measured at an amount equal to the portion of lifetime expected credit losses that result from possible default events within the next 12 months. Financial instruments in Stages 2 or 3 have their ECLs measured based on expected credit losses on a lifetime basis. Please refer to note 3.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information. Note 3.1.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECLs are always measured on a lifetime basis.

The following diagram summarizes the impairment requirements under HKFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	Stage 2	Stage 3
Initial recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
12 – month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standards are addressed below.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement *(continued)*

3.1.2.1 Significant increase in credit risk ("SICR")

The criteria for the determination of "significant increase in credit risk" includes but not limited to the following factors:

(a) Notch difference

For investment securities, significant increase in credit risk is assessed based on the notch difference threshold by comparing ratings at measurement date and initial recognition date.

Internal Rating	Notch Difference
1.1 – 1.3	6
1.4 – 2	5
3 – 5	4
6 – 8	3
9 – 10	2
11 – 15	1

(b) Days past due

Different levels of days past due are considered as significant credit deterioration criteria for different portfolios.

(c) Watch list

Qualitative and forward-looking information, e.g. industry outlook of obligor, future organization, restructure plan of obligor, are considered as criteria for adding into the watch list, which is considered as significant increase in credit risk. For investment securities, significant decrease in market price and external rating are considered as significant increase in credit risk.

(d) HKMA ratings

Under HKMA's Guideline on Loan Classification System, the Special Mention grade is considered as threshold for retail loan, corporate loan and credit card portfolio.

(e) Other risk alarm indicators imply growing potential risk, and could cause losses of financial assets to the Bank.

The financial assets are moveable between stages. For instance, financial instruments originally classified at Stage 1 should be downgraded to Stage 2 if events occur such as a significant increase in credit risk. Financial instruments at Stage 2 could be upgraded to Stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

The assessment of significant increase in credit risk incorporates forward-looking information (refer to note 3.1.2.4 for further information) and is performed on a periodic basis at a counterparty level for all financial instruments held by the Bank.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement *(continued)*

3.1.2.2 Definition of default and credit-impaired assets

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

- The borrower is more than 90 days past due on its contractual payments (with the sole exception of credit card where a borrower only needs to be 60 days past due to be considered in default)
- The borrower has been classified as Substandard, Doubtful or Loss under the HKMA classification system
- The loan has been placed on individual assessment list (applicable only to loans)

The credit impairment definition has been applied consistently to model the probability of default, exposure at default and loss given default throughout the Bank's expected loss calculations.

3.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a revolving credit commitment, EAD includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for each future year and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier year). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by using forecasted macroeconomic factors to calculate a forecasted 12M PD for the 2nd to 5th year. For the years after the fifth year, it is assumed that the PD will remain the same.

EAD represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilized credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, LGDs are primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement *(continued)*

3.1.2.4 Forward-looking information incorporated in the ECL models

Forward-looking information is incorporated in both the assessment of SICR and the calculation of ECL. The Bank has performed historical analysis to identify the key economic variables that impact credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary across different financial instruments. Expert judgement has also been employed in this process. To establish the base economic scenario for the next five years, forecasts of these economic variables are collected from different sources, including economics team of the Bank of Communications Co., Ltd., Development Strategy Team of the Bank and the International Monetary Fund ("IMF"). After five years, it is assumed that the economic variables will remain stable and the last available forecast is used. A statistical regression analysis has been conducted to ascertain the impact of these economic variables on the PD, EAD and LGD. This analysis aims to understand the historical impact changes in these variables on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Risk Management Department and Development Strategy Team have taken into account other economic scenarios. These scenarios and weightings for each of these scenarios are derived from the calculation of historical data. At 31 December 2024 and 31 December 2023, the Bank concluded that three scenarios were used in the calculation process. The scenario weightings are determined based on expert credit judgement, taking account of the range of potential outcomes that each selected scenario represents.

Following this assessment, the Bank then measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying the result by the appropriate scenario weighting (the weighting is applied to the ECL outputs, rather than the inputs).

Similar to all economic forecasts, the projections and probabilities associated with the economic scenarios rely on the estimations of future economic conditions. These estimations are sensitive to changes resulting from macro events such as the COVID-19 pandemic and geopolitical developments. They are, therefore, inherently subject to a high degree of uncertainty and as a result, the actual outcomes may deviate significantly from the projected ones. The Bank regards these forecasts as its best estimation of potential outcomes. Analysis has been conducted to assess the variations across the Bank's diverse portfolios to make sure the selected scenarios adequately encompass the range of possible scenarios. The proposed macroeconomic forecasts and probability weightings are subject to review by the management.

Economic variable assumptions

The global outbreak of the COVID-19 pandemic has presented unparalleled economic and social challenges across all regions. Governments worldwide have taken various measures, such as social distancing and lockdowns, to mitigate the spread of the virus which, however, have led to a significant downturn in global economic activities throughout 2020. At the same time, a variety of relief measures have been rolled out to prevent further deterioration and facilitate economic recovery on an unprecedented scale. After containment measures for the pandemic were loosened, economic activities in most economies have gradually picked up throughout 2022. However, the pace of recovery slowed down in 2024. It is expected that the level of recovery would be similar in 2025.

The above developments pertaining to the COVID-19 pandemic and changes in the geopolitical environment during 2024 have added complexities to the estimation of economic scenarios. As a result, the Bank has found it necessary to reassess its economic scenarios and probability weightings when calculating ECL.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement *(continued)*

3.1.2.4 Forward-looking information incorporated in the ECL models *(continued)*

Economic variable assumptions (continued)

The Bank continued to adopt three economic scenarios across all portfolios. These scenarios encompass the “Base” scenario, which is considered the most likely, as well as two additional scenarios known as the “Upside” and “Downside” scenarios. The Upside scenario represents a less likely but more favorable outcome, while the Downside scenario reflects a less likely and less favorable outcome.

The “Base” scenario can be described as follows: following a moderate rebound of the global economy in 2024, a mild recovery is anticipated in 2025. This recovery is expected to occur with the continuation of expansionary monetary policies in most developed countries. GDP in most regions rebounded moderately in 2024, followed by a further recovery in 2025. However, the extent of recovery is highly uneven within the global economy as China’s GDP expanded moderately while a mild recovery is observed in Hong Kong. Furthermore, the unemployment rate is anticipated to decline further in 2025 across most regions, compared with the high levels witnessed in 2020. Forecasts indicate a gradual return to the pre-pandemic growth levels similar to those observed in 2019, over the course of the forthcoming years.

As a result of the above macroeconomic changes observed in 2024, the Bank has revised its forecast about future economic conditions.

Outlined below are the key assumptions at the end of the period used for estimating ECL as at 31 December 2024.

		2025	2026	2027	2028	2029
Hong Kong CPI	Base	2.3%	2.4%	2.5%	2.5%	2.5%
	Upside	6.3%	5.8%	2.8%	-4.0%	-3.7%
	Downside	-1.6%	-3.2%	-2.5%	-0.5%	0.9%
Hong Kong Unemployment rate	Base	2.7%	2.7%	2.7%	2.7%	2.7%
	Upside	2.8%	2.2%	4.7%	6.3%	4.9%
	Downside	5.1%	7.3%	7.9%	6.8%	5.6%
Euro area Total investment per nominal GDP (first difference)	Base	0.0%	0.1%	0.1%	0.0%	0.0%
	Upside	0.2%	0.1%	0.1%	0.0%	0.0%
	Downside	-0.3%	0.1%	0.0%	0.0%	0.0%
US Total investment per nominal GDP (first difference)	Base	0.1%	0.2%	0.1%	0.1%	0.1%
	Upside	0.4%	0.7%	0.5%	0.5%	0.3%
	Downside	-1.5%	-0.5%	0.0%	0.9%	0.7%

The weightings assigned to each economic scenario as at 31 December 2024 were as follows:

Upside	Base	Downside
10%	80%	10%

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Expected credit loss measurement *(continued)*

3.1.2.4 Forward-looking information incorporated in the ECL models *(continued)*

Economic variable assumptions (continued)

Outlined below are the key assumptions at the end of the period used for estimating ECL as at 31 December 2023.

		2024	2025	2026	2027	2028
Hong Kong CPI	Base	2.0%	2.0%	2.0%	2.0%	2.0%
	Upside	6.3%	5.8%	2.8%	-4.0%	-3.7%
	Downside	-1.6%	-3.2%	-2.5%	-0.5%	0.9%
Hong Kong Unemployment rate	Base	3.0%	3.0%	3.0%	3.0%	3.0%
	Upside	2.8%	2.2%	4.7%	6.3%	4.9%
	Downside	5.1%	7.3%	7.9%	6.8%	5.6%
China FI Loans Growth Rate (first difference)	Base	0.1%	0.1%	0.1%	0.0%	0.0%
	Upside	0.6%	0.1%	0.1%	0.0%	0.0%
	Downside	-0.2%	0.1%	0.1%	0.0%	0.0%
US Total investment per nominal GDP (first difference)	Base	-0.2%	0.0%	0.2%	0.1%	0.1%
	Upside	0.4%	0.7%	0.5%	0.5%	0.3%
	Downside	-1.5%	-0.5%	0.0%	0.9%	0.7%

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

Upside	Base	Downside
10%	80%	10%

In addition to the scenarios mentioned above, other forward-looking factors, including the impact of any regulatory, legislative or political changes, have been taken into account as well. However, these factors are not deemed to have a material impact and therefore no adjustment has been made to the ECL to account for them. This assessment is reviewed and monitored on a regular basis as to whether it is appropriate.

Sensitivity analysis

The following table presents the base ECL scenario compared to the probability-weighted ECL derived from using three ECL scenarios. The difference reflects the impact of deriving multiple scenarios around the base ECL and resultant change in ECL due to non-linearity and sensitivity to using macroeconomic forecasts.

	As at 31 December 2024	As at 31 December 2023
Change from Base to Probability-weighted ECL		
Probability-weighted ECL	5,673,712	6,595,658
Base ECL	5,619,384	6,558,317
Difference in amount	54,328	37,341
Difference in percentage	1.0%	0.6%

Management judgemental adjustment

There were no management judgemental adjustments made by the Bank for the years ended 31 December 2024 and 2023.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure

3.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized.

The gross carrying amount of financial assets below represents the Bank's maximum exposure of credit risk on these assets.

	2024			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers at amortized cost – Corporate Loan				
Investment Grade	24,419,302	994,733	–	25,414,035
Standard Monitoring	29,948,229	32,617,650	–	62,565,879
Special Monitoring	–	2,109,556	–	2,109,556
Defaults	–	–	6,326,264	6,326,264
Unrated	27,291,910	11,216,802	–	38,508,712
Gross carrying amount	81,659,441	46,938,741	6,326,264	134,924,446
ECL allowance	(149,237)	(545,870)	(4,362,060)	(5,057,167)
Carrying amount	81,510,204	46,392,871	1,964,204	129,867,279

	2023			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers at amortized cost – Corporate Loan				
Investment Grade	30,055,851	1,565,110	–	31,620,961
Standard Monitoring	56,221,905	9,736,839	–	65,958,744
Special Monitoring	314,373	1,360,882	–	1,675,255
Defaults	–	–	6,226,157	6,226,157
Unrated	25,219,559	5,511,750	–	30,731,309
Gross carrying amount	111,811,688	18,174,581	6,226,157	136,212,426
ECL allowance	(326,676)	(192,786)	(5,609,384)	(6,128,846)
Carrying amount	111,485,012	17,981,795	616,773	130,083,580

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment *(continued)*

	2024			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers at amortized cost – Retail Loan				
Investment Grade	58,934,082	3,282,552	–	62,216,634
Standard Monitoring	427,643	131,206	–	558,849
Special Monitoring	–	74,585	–	74,585
Defaults	–	–	253,917	253,917
Gross carrying amount	59,361,725	3,488,343	253,917	63,103,985
ECL allowance	(34,731)	(121,945)	(59,840)	(216,516)
Carrying amount	59,326,994	3,366,398	194,077	62,887,469

	2023			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loans and advances to customers at amortized cost – Retail Loan				
Investment Grade	60,983,504	176,306	–	61,159,810
Standard Monitoring	607,814	122,554	–	730,368
Special Monitoring	–	69,809	–	69,809
Defaults	–	–	94,162	94,162
Gross carrying amount	61,591,318	368,669	94,162	62,054,149
ECL allowance	(44,170)	(23,860)	(30,618)	(98,648)
Carrying amount	61,547,148	344,809	63,544	61,955,501

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment *(continued)*

	2024			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Due from and placements with banks and other financial institutions				
Investment Grade	28,806,746	–	–	28,806,746
Standard Monitoring	4,150,000	–	–	4,150,000
Unrated	93,000	–	–	93,000
Gross carrying amount	33,049,746	–	–	33,049,746
ECL allowance	(28,165)	–	–	(28,165)
Carrying amount	33,021,581	–	–	33,021,581

	2023			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Due from and placements with banks and other financial institutions				
Investment Grade	20,801,837	–	–	20,801,837
Standard Monitoring	3,395,496	–	–	3,395,496
Unrated	–	–	–	–
Gross carrying amount	24,197,333	–	–	24,197,333
ECL allowance	(20,598)	–	–	(20,598)
Carrying amount	24,176,735	–	–	24,176,735

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment *(continued)*

	2024			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Debt securities at fair value through other comprehensive income				
Investment Grade	138,634,032	529,867	–	139,163,899
Unrated	1,308,470	1,160,186	–	2,468,656
Carrying amount	139,942,502	1,690,053	–	141,632,555
ECL allowance	(248,207)	(9,607)	–	(257,814)
	2023			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Debt securities at fair value through other comprehensive income				
Investment Grade	80,847,710	–	–	80,847,710
Unrated	59,170,984	1,252,837	–	60,423,821
Carrying amount	140,018,694	1,252,837	–	141,271,531
ECL allowance	(207,716)	(7,864)	–	(215,580)
	2024			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Debt securities at amortized cost				
Investment Grade	33,110,865	–	–	33,110,865
Unrated	14,805,093	33,728	–	14,838,821
Gross carrying amount	47,915,958	33,728	–	47,949,686
ECL allowance	(45,760)	(333)	–	(46,093)
Carrying amount	47,870,198	33,395	–	47,903,593
	2023			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Debt securities at amortized cost				
Investment Grade	30,762,042	–	–	30,762,042
Unrated	16,609,659	44,690	–	16,654,349
Gross carrying amount	47,371,701	44,690	–	47,416,391
ECL allowance	(47,281)	(587)	–	(47,868)
Carrying amount	47,324,420	44,103	–	47,368,523

Information on how the Expected Credit Loss (“ECL”) is measured and how the three stages above are determined is included in note 3.1.2.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.2 Maximum exposure to credit risk – Financial instruments

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment:

	Maximum exposure to credit risk	
	2024	2023
Financial assets at fair value through profit or loss		
Derivative financial instruments	9,043,419	9,790,562
Debt securities	457,770	562,522
Total	9,501,189	10,353,084

3.1.3.3 Collateral and other credit enhancements

The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, banking groups and geographical regions.

The Bank structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent reviews, whenever necessary.

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.3 Collateral and other credit enhancements *(continued)*

Some other specific control and risk mitigation measures are outlined below:

(a) Collaterals

The Bank employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collaterals. The principal types of collaterals for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss, the Bank will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Bank will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities and treasury bonds are generally unsecured, with the exception of asset backed securities, which are secured by portfolios of financial instruments.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. The fair value is capped at lower of carrying amount and fair value. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

As at 31 December 2024	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	253,917	(59,840)	194,077	206,486
Loans to corporate entities	6,326,264	(4,362,060)	1,964,204	1,112,993
	6,580,181	(4,421,900)	2,158,281	1,319,479
As at 31 December 2023	Gross exposure	ECL allowance	Carrying amount	Fair value of collateral held
Loans to individuals	94,162	(30,618)	63,544	63,082
Loans to corporate entities	6,226,157	(5,609,384)	616,773	211,827
	6,320,319	(5,640,002)	680,317	274,909

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.3 Credit risk exposure *(continued)*

3.1.3.3 Collateral and other credit enhancements *(continued)*

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

3.1.4 Movements of gross carrying amount and ECL allowance

The ECL allowance recognized in the period is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent step up (or step down) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Applying management judgemental adjustment to take into account for the model and data limitations, and expert judgement applied after management's review and challenge;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written-off during the period (see note 3.1.5).

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

The following tables explain the changes in the ECL allowance between the beginning and the end of the annual period due to these factors:

Movement of gross carrying amount – Loans and advances to customers at amortized cost

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2024	111,811,688	18,174,581	6,226,157	136,212,426
Transfers:				
Transfer from Stage 1 to Stage 2	(22,349,820)	22,349,820	–	–
Transfer from Stage 1 to Stage 3	(448,377)	–	448,377	–
Transfer from Stage 2 to Stage 1	258,423	(258,423)	–	–
Transfer from Stage 2 to Stage 3	–	(1,041,335)	1,041,335	–
Transfer from Stage 3 to Stage 2	–	964	(964)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	(7,478,918)	7,953,544	(603,890)	(129,264)
Write-offs	–	–	(783,212)	(783,212)
Foreign exchange and other movements	(133,555)	(240,410)	(1,539)	(375,504)
Gross carrying amount as at 31 December 2024	81,659,441	46,938,741	6,326,264	134,924,446

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2024.

Corporate Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	131,707,658	12,812,245	5,752,876	150,272,779
Transfers:				
Transfer from Stage 1 to Stage 2	(2,131,201)	2,131,201	–	–
Transfer from Stage 1 to Stage 3	(57,410)	–	57,410	–
Transfer from Stage 2 to Stage 1	278,472	(278,472)	–	–
Transfer from Stage 2 to Stage 3	–	(544,746)	544,746	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	(18,044,414)	4,049,334	459,769	(13,535,311)
Write-offs	–	–	(591,942)	(591,942)
Foreign exchange and other movements	58,583	5,019	3,298	66,900
Gross carrying amount as at 31 December 2023	111,811,688	18,174,581	6,226,157	136,212,426

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2023.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of ECL allowance – Loans and advances to customers at amortized cost

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Corporate Loan				
ECL allowance amount as at 1 January 2024	326,676	192,786	5,609,384	6,128,846
Transfers:				
Transfer from Stage 1 to Stage 2	(83,706)	83,706	–	–
Transfer from Stage 1 to Stage 3	(3,519)	–	3,519	–
Transfer from Stage 2 to Stage 1	4,252	(4,252)	–	–
Transfer from Stage 2 to Stage 3	–	(31,043)	31,043	–
Transfer from Stage 3 to Stage 2	–	964	(964)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(40,525)	89,737	(850,653)	(801,441)
Changes in PDs/LGDs/EADs	(53,406)	216,004	239,631	402,229
Recoveries of loans and advances written-off in previous years	–	–	114,665	114,665
Write-offs	–	–	(783,212)	(783,212)
Foreign exchange and other movements	(535)	(2,032)	(1,353)	(3,920)
ECL allowance amount as at 31 December 2024	149,237	545,870	4,362,060	5,057,167

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Corporate Loan				
ECL allowance amount as at 1 January 2023	526,961	92,350	1,982,779	2,602,090
Transfers:				
Transfer from Stage 1 to Stage 2	(33,913)	33,913	–	–
Transfer from Stage 1 to Stage 3	(2,223)	–	2,223	–
Transfer from Stage 2 to Stage 1	12,773	(12,773)	–	–
Transfer from Stage 2 to Stage 3	–	(13,382)	13,382	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(25,772)	47,917	671,823	693,968
Changes in PDs/LGDs/EADs	(151,429)	44,738	3,291,781	3,185,090
Recoveries of loans and advances written-off in previous years	–	–	238,424	238,424
Write-offs	–	–	(591,942)	(591,942)
Foreign exchange and other movements	279	23	914	1,216
ECL allowance amount as at 31 December 2023	326,676	192,786	5,609,384	6,128,846

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross carrying amount – Loans and advances to customers at amortized cost

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2024	61,591,318	368,669	94,162	62,054,149
Transfers:				
Transfer from Stage 1 to Stage 2	(3,376,298)	3,376,298	–	–
Transfer from Stage 1 to Stage 3	(163,209)	–	163,209	–
Transfer from Stage 2 to Stage 1	48,999	(48,999)	–	–
Transfer from Stage 2 to Stage 3	–	(44,182)	44,182	–
Transfer from Stage 3 to Stage 1	261	–	(261)	–
Transfer from Stage 3 to Stage 2	–	74	(74)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	1,261,858	(163,517)	(22,475)	1,075,866
Write-offs	–	–	(24,826)	(24,826)
Foreign exchange and other movements	(1,204)	–	–	(1,204)
Gross carrying amount as at 31 December 2024	59,361,725	3,488,343	253,917	63,103,985

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2024.

Retail Loan	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	59,956,467	566,957	48,072	60,571,496
Transfers:				
Transfer from Stage 1 to Stage 2	(284,597)	284,597	–	–
Transfer from Stage 1 to Stage 3	(46,937)	–	46,937	–
Transfer from Stage 2 to Stage 1	372,268	(372,268)	–	–
Transfer from Stage 2 to Stage 3	–	(21,885)	21,885	–
Transfer from Stage 3 to Stage 1	1,155	–	(1,155)	–
Transfer from Stage 3 to Stage 2	–	791	(791)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	1,592,665	(89,522)	(8,062)	1,495,081
Write-offs	–	–	(12,724)	(12,724)
Foreign exchange and other movements	297	(1)	–	296
Gross carrying amount as at 31 December 2023	61,591,318	368,669	94,162	62,054,149

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2023.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of ECL allowance – Loans and advances to customers at amortized cost

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Retail Loan				
ECL allowance amount as at 1 January 2024	44,170	23,860	30,618	98,648
Transfers:				
Transfer from Stage 1 to Stage 2	(5,384)	5,384	–	–
Transfer from Stage 1 to Stage 3	(347)	–	347	–
Transfer from Stage 2 to Stage 1	6,220	(6,220)	–	–
Transfer from Stage 2 to Stage 3	–	(4,104)	4,104	–
Transfer from Stage 3 to Stage 1	27	–	(27)	–
Transfer from Stage 3 to Stage 2	–	16	(16)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	1,354	(7,836)	16,859	10,377
Changes in PDs/LGDs/EADs	(11,308)	110,845	31,045	130,582
Recoveries of loans and advances written-off in previous years	–	–	1,736	1,736
Write-offs	–	–	(24,826)	(24,826)
Foreign exchange and other movements	(1)	–	–	(1)
ECL allowance amount as at 31 December 2024	34,731	121,945	59,840	216,516

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Retail Loan				
ECL allowance amount as at 1 January 2023	27,606	47,299	29,141	104,046
Transfers:				
Transfer from Stage 1 to Stage 2	(159)	159	–	–
Transfer from Stage 1 to Stage 3	(50)	–	50	–
Transfer from Stage 2 to Stage 1	38,033	(38,033)	–	–
Transfer from Stage 2 to Stage 3	–	(1,934)	1,934	–
Transfer from Stage 3 to Stage 1	762	–	(762)	–
Transfer from Stage 3 to Stage 2	–	178	(178)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	5,728	77	(730)	5,075
Changes in PDs/LGDs/EADs	(27,750)	16,101	12,571	922
Recoveries of loans and advances written-off in previous years	–	–	1,316	1,316
Write-offs	–	–	(12,724)	(12,724)
Foreign exchange and other movements	–	13	–	13
ECL allowance amount as at 31 December 2023	44,170	23,860	30,618	98,648

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross carrying amount – Loans and advances to customers at amortized cost

Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2024	173,403,006	18,543,250	6,320,319	198,266,575
Transfers:				
Transfer from Stage 1 to Stage 2	(25,726,118)	25,726,118	–	–
Transfer from Stage 1 to Stage 3	(611,586)	–	611,586	–
Transfer from Stage 2 to Stage 1	307,422	(307,422)	–	–
Transfer from Stage 2 to Stage 3	–	(1,085,517)	1,085,517	–
Transfer from Stage 3 to Stage 1	261	–	(261)	–
Transfer from Stage 3 to Stage 2	–	1,038	(1,038)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	(6,217,060)	7,790,027	(626,365)	946,602
Write-offs	–	–	(808,038)	(808,038)
Foreign exchange and other movements	(134,759)	(240,410)	(1,539)	(376,708)
Gross carrying amount as at 31 December 2024	141,021,166	50,427,084	6,580,181	198,028,431

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2024.

Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	191,664,125	13,379,202	5,800,948	210,844,275
Transfers:				
Transfer from Stage 1 to Stage 2	(2,415,798)	2,415,798	–	–
Transfer from Stage 1 to Stage 3	(104,347)	–	104,347	–
Transfer from Stage 2 to Stage 1	650,740	(650,740)	–	–
Transfer from Stage 2 to Stage 3	–	(566,631)	566,631	–
Transfer from Stage 3 to Stage 1	1,155	–	(1,155)	–
Transfer from Stage 3 to Stage 2	–	791	(791)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending (Note)	(16,451,749)	3,959,812	451,707	(12,040,230)
Write-offs	–	–	(604,666)	(604,666)
Foreign exchange and other movements	58,880	5,018	3,298	67,196
Gross carrying amount as at 31 December 2023	173,403,006	18,543,250	6,320,319	198,266,575

Note: Includes the new financial assets originated or purchased during the year, but subsequently transferred from Stage 1 to Stage 2 or Stage 3 at 31 December 2023.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of ECL allowance – Loans and advances to customers at amortized cost

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
ECL allowance amount as at 1 January 2024	370,846	216,646	5,640,002	6,227,494
Transfers:				
Transfer from Stage 1 to Stage 2	(89,090)	89,090	–	–
Transfer from Stage 1 to Stage 3	(3,866)	–	3,866	–
Transfer from Stage 2 to Stage 1	10,472	(10,472)	–	–
Transfer from Stage 2 to Stage 3	–	(35,147)	35,147	–
Transfer from Stage 3 to Stage 1	27	–	(27)	–
Transfer from Stage 3 to Stage 2	–	980	(980)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(39,171)	81,901	(833,794)	(791,064)
Changes in PDs/LGDs/EADs	(64,714)	326,849	270,676	532,811
Recoveries of loans and advances written-off in previous years	–	–	116,401	116,401
Write-offs	–	–	(808,038)	(808,038)
Foreign exchange and other movements	(536)	(2,032)	(1,353)	(3,921)
ECL allowance amount as at 31 December 2024	183,968	667,815	4,421,900	5,273,683

	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
Loans and advances to customers				
ECL allowance amount as at 1 January 2023	554,567	139,649	2,011,920	2,706,136
Transfers:				
Transfer from Stage 1 to Stage 2	(34,072)	34,072	–	–
Transfer from Stage 1 to Stage 3	(2,273)	–	2,273	–
Transfer from Stage 2 to Stage 1	50,806	(50,806)	–	–
Transfer from Stage 2 to Stage 3	–	(15,316)	15,316	–
Transfer from Stage 3 to Stage 1	762	–	(762)	–
Transfer from Stage 3 to Stage 2	–	178	(178)	–
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(20,044)	47,994	671,093	699,043
Changes in PDs/LGDs/EADs	(179,179)	60,839	3,304,352	3,186,012
Recoveries of loans and advances written-off in previous years	–	–	239,740	239,740
Write-offs	–	–	(604,666)	(604,666)
Foreign exchange and other movements	279	36	914	1,229
ECL allowance amount as at 31 December 2023	370,846	216,646	5,640,002	6,227,494

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross carrying amount – Due from and placements with banks and other financial institutions

Due from and placements with banks and other financial institutions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2024	24,197,333	–	–	24,197,333
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	8,918,240	–	–	8,918,240
Foreign exchange and other movements	(65,827)	–	–	(65,827)
Gross carrying amount as at 31 December 2024	33,049,746	–	–	33,049,746

Due from and placements with banks and other financial institutions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	24,549,023	–	–	24,549,023
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(341,008)	–	–	(341,008)
Foreign exchange and other movements	(10,682)	–	–	(10,682)
Gross carrying amount as at 31 December 2023	24,197,333	–	–	24,197,333

Movement of ECL allowance – Due from and placements with banks and other financial institutions

Due from and placements with banks and other financial institutions	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2024	20,598	–	–	20,598
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	7,099	–	–	7,099
Changes in PDs/LGDs/EADs	481	–	–	481
Foreign exchange and other movements	(13)	–	–	(13)
ECL allowance amount as at 31 December 2024	28,165	–	–	28,165

Due from and placements with banks and other financial institutions	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2023	1,963	–	–	1,963
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	17,687	–	–	17,687
Changes in PDs/LGDs/EADs	948	–	–	948
Foreign exchange and other movements	–	–	–	–
ECL allowance amount as at 31 December 2023	20,598	–	–	20,598

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of carrying amount – Debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2024	140,018,694	1,252,837	–	141,271,531
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	1,655,084	447,153	–	2,102,237
Foreign exchange and other movements	(1,731,276)	(9,937)	–	(1,741,213)
Carrying amount as at 31 December 2024	139,942,502	1,690,053	–	141,632,555

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 1 January 2023	160,722,835	620,848	–	161,343,683
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(20,724,649)	631,547	–	(20,093,102)
Foreign exchange and other movements	20,508	442	–	20,950
Carrying amount as at 31 December 2023	140,018,694	1,252,837	–	141,271,531

Movement of ECL allowance – Debt securities at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2024	207,716	7,864	–	215,580
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	14,863	(2,055)	–	12,808
Changes in PDs/LGDs/EADs	27,225	3,822	–	31,047
Foreign exchange and other movements	(1,597)	(24)	–	(1,621)
ECL allowance amount as at 31 December 2024	248,207	9,607	–	257,814

Debt securities at fair value through other comprehensive income	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2023	184,196	2,177	–	186,373
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	132	832	–	964
Changes in PDs/LGDs/EADs	23,137	4,853	–	27,990
Foreign exchange and other movements	251	2	–	253
ECL allowance amount as at 31 December 2023	207,716	7,864	–	215,580

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Movement of gross carrying amount – Debt securities at amortized cost

Debt securities at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2024	47,371,701	44,690	–	47,416,391
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	1,369,544	(10,769)	–	1,358,775
Foreign exchange and other movements	(825,287)	(193)	–	(825,480)
Gross carrying amount as at 31 December 2024	47,915,958	33,728	–	47,949,686

Debt securities at amortized cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	50,354,809	199,301	–	50,554,110
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(2,920,166)	(154,921)	–	(3,075,087)
Foreign exchange and other movements	(62,942)	310	–	(62,632)
Gross carrying amount as at 31 December 2023	47,371,701	44,690	–	47,416,391

Movement of ECL allowance – Debt securities at amortized cost

Debt securities at amortized cost	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2024	47,281	587	–	47,868
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	(1,120)	(492)	–	(1,612)
Changes in PDs/LGDs/EADs	79	239	–	318
Foreign exchange and other movements	(480)	(1)	–	(481)
ECL allowance amount as at 31 December 2024	45,760	333	–	46,093

Debt securities at amortized cost	Stage 1 12-month ECL allowance	Stage 2 Lifetime ECL allowance	Stage 3 Lifetime ECL allowance	Total
ECL allowance amount as at 1 January 2023	23,869	693	–	24,562
New financial assets originated or purchased, financial assets remeasurement, derecognized, repayments and further lending	11,808	587	–	12,395
Changes in PDs/LGDs/EADs	11,614	(694)	–	10,920
Foreign exchange and other movements	(10)	1	–	(9)
ECL allowance amount as at 31 December 2023	47,281	587	–	47,868

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.4 Movements of gross carrying amount and ECL allowance *(continued)*

Financial guarantees and credit related commitments	Stage 1	Stage 2	Stage 3	Total
Carrying amount as at 31 December 2024	27,981,235	2,868,331	–	30,849,566
Carrying amount as at 31 December 2023	20,969,578	8,504,024	–	29,473,602
	Stage 1	Stage 2	Stage 3	
	12-month ECL allowance	Lifetime ECL allowance	Lifetime ECL allowance	Total
Financial guarantees and credit related commitments				
ECL allowance amount as at 31 December 2024	15,005	3,357	–	18,362
ECL allowance amount as at 31 December 2023	20,958	908	–	21,866

3.1.5 Write-off policy

The Bank writes off financial assets when all practical efforts to recover the assets have been exhausted and a reasonable expectation of recovery is deemed unlikely. Indicators that there is no reasonable expectation of recovery include but not limited to (i) discontinuation of enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral but the value of the collateral is such that there is no reasonable expectation of full recovery.

The Bank may write-off financial assets that are still subject to enforcement activity. While the Bank still seeks to recover amounts it is legally owed in full, write-off may be necessary when there is no reasonable expectation of full recovery.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment loss in profit or loss in the period in which the recovery occurs.

3.1.6 Derivative instruments

The Bank undertakes its transactions in foreign exchange, interest rate derivative contracts and others with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risk arising from the Bank's market transactions on any single day.

3.1.7 Repossessed assets

Repossession assets are collateral of the outstanding indebtedness that the Bank takes possession of the collateral assets through court proceedings or voluntary delivery actions by the borrower. It will be sold as soon as practicable with the proceeds used to repay the outstanding indebtedness.

As at 31 December 2024 and 2023, there was no repossessed asset that being held by the Bank.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Credit risk *(continued)*

3.1.8 Concentration risk analysis for loans and advances to customers with credit risk exposure

The Bank mainly manages concentration risk for loans and advances to customers by geographical sectors. The following table is the geographical analysis of gross loans and advances to customers:

Geographical sectors	2024	2023
Mainland China	15,586,961	21,038,012
Hong Kong	172,875,314	175,663,271
Others	9,535,158	1,517,688
	197,997,433	198,218,971

3.2 Market risk

3.2.1 Overview

The Bank assumes exposure to market risks, which are triggered by the volatility in the fair value of or future cash flow of financial instruments due to fluctuations in market prices. These market risks emerge from the Bank's open positions in interest rates, exchange rates and equity products, all of which are exposed to market fluctuations and changes in interest rates, foreign exchange rates and equity price.

The Bank established a management model that comprises of "large and small middle offices" to manage its market risks. This model is a centralized control framework overseen by the Board of Directors and senior management. By implementing a segregation of duties, the Risk Management Department is responsible for formulating market risk policies and ensuring the Bank's exposure remains within the risk appetite set by the Board of Directors. On the other hand, the Global Markets Department serves as the execution unit for market risk management. The Internal Audit Department is responsible for conducting independent verification of the policies and processes for the market risk management system.

The Bank monitors market risk separately in respect of trading portfolios and non-trading portfolios. The trading account consists of financial instruments held either for trading intent or economic hedging for other elements of the trading account. The non-trading account consists of the investments purchased by the Bank with excess funds and other financial instruments that are not captured in the trading account.

With regard to the exchange rate risks and the interest rate risks of trading book, the Bank established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Bank to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Bank strived to maximize its rate of return while keeping its risks under control.

The Bank has continuously improved the management system of market risk. The Bank conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Bank's major market risk factors. The Bank has implemented daily automatic collection of trading data and market data in the system. The Bank conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Bank enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fix-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Bank adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Bank's portfolios is as follows:

Items	For the year ended 31 December 2024			
	As at 31 December 2024	Average	Maximum	Minimum
VaR	4,603	18,505	36,629	4,603
– Interest rate risk	1,379	2,072	9,730	75
– Foreign exchange risk	4,373	17,051	31,449	4,139

Items	For the year ended 31 December 2023			
	As at 31 December 2023	Average	Maximum	Minimum
VaR	25,971	30,297	62,930	895
– Interest rate risk	87	2,466	8,873	87
– Foreign exchange risk	25,927	31,283	63,120	945

3.2.3 Sensitivity tests

Interest rate sensitivity test

The Bank performs interest rate sensitivity analysis on net interest income for the Bank by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behaviour and repayment option into consideration.

On an assumption of a parallel shift of 100 basis points in RMB, USD and HKD interest rates, the Bank calculates the changes in net interest income for the year on a monthly basis.

The table below illustrates the impact to net interest income of the coming year of the Bank based on the structure of interest bearing assets and liabilities as at 31 December 2024 and 31 December 2023, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected changes in net interest income	
	As at 31 December 2024	As at 31 December 2023
+100 basis points parallel shift in yield curves	(673,050)	(718,128)
– 100 basis points parallel shift in yield curves	673,050	718,128

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.3 Sensitivity tests *(continued)*

Interest rate sensitivity test (continued)

The interest rate sensitivity tests presented in the table above are provided for illustrative purposes only and are derived from simplified scenarios. The figures represent the projected impact on the net interest income resulting from the projected movement of yield curves within the current interest risk structure. However, these calculations do not take into account any potential actions that the Bank may take to mitigate the impact of interest rate fluctuations. The projections above also make an assumption that interest rates across all maturities, except for demand deposits, will move by an equal extent. As a result, these projections do not reflect the potential impact on net interest income that may arise from changes in certain rates while others remain unchanged. These projections incorporate other simplifying assumptions as well, such as the expectation that, all positions are to be held to maturity. If positions are not held to maturity, changes to the projections may occur. Nevertheless, these changes are not expected to have a significant impact.

Foreign exchange sensitivity test

The Bank performs exchange rate sensitivity analysis on net profit and equity for the Bank by measuring the impact of a change in exchange rate on financial assets and liabilities denominated in different currencies. Since HK\$ is pegged to USD under linked exchange rate system, no sensitivity analysis against USD is presented. On an assumption of an appreciation or depreciation of RMB, GBP, AUD and EUR spot and forward rates against HK\$ by 5%, the Bank calculates the changes in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB, GBP, AUD and EUR spot and forward rates against HK\$ by 5% on the Bank's net profit and equity.

	Expected changes in net profit and equity	
	As at 31 December 2024	As at 31 December 2023
5% appreciation of RMB	(123,973)	(496,982)
5% depreciation of RMB	123,973	496,982
5% appreciation of GBP	(39,742)	(22,484)
5% depreciation of GBP	39,742	22,484
5% appreciation of AUD	835,125	785,700
5% depreciation of AUD	(835,125)	(785,700)
5% appreciation of EUR	154,578	146,275
5% depreciation of EUR	(154,578)	(146,275)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The tables below summarize the Bank's exposures to interest rate risks. The tables show the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2024							
Assets							
Cash and balances with central bank	–	–	–	–	–	1,864,846	1,864,846
Due from and placements with banks and other financial institutions	14,823,939	2,428,488	13,506,549	–	–	2,262,605	33,021,581
Financial assets at fair value through profit or loss	–	–	40	457,730	–	9,043,419	9,501,189
Financial assets at amortized cost	6,014,439	7,270,181	8,436,771	14,526,427	10,708,134	–	46,955,952
Financial assets at fair value through other comprehensive income	5,858,017	14,294,982	21,879,524	65,474,409	34,125,623	9,918	141,642,473
Loans and advances to customers	157,036,954	24,725,960	8,309,956	2,351,650	39,935	259,295	192,723,750
Other financial assets	–	–	–	–	–	7,415,457	7,415,457
Total financial assets	183,733,349	48,719,611	52,132,840	82,810,216	44,873,692	20,855,540	433,125,248
Liabilities							
Due to banks and other financial institutions	3,228,140	18,790,804	1,146,697	186,582	–	392,604	23,744,827
Due to customers	156,837,446	147,061,320	24,594,409	98,259	–	2,001,572	330,593,006
Financial liabilities at fair value through profit or loss	–	–	–	–	–	1,889,524	1,889,524
Certificates of deposits issued	–	111,480	–	–	–	–	111,480
Lease liabilities	13,637	27,344	79,546	98,196	–	–	218,723
Debt securities issued	–	–	–	–	7,764,376	–	7,764,376
Other financial liabilities	–	–	–	–	–	8,260,075	8,260,075
Total financial liabilities	160,079,223	165,990,948	25,820,652	383,037	7,764,376	12,543,775	372,582,011
Total interest sensitivity gap	23,654,126	(117,271,337)	26,312,188	82,427,179	37,109,316	8,311,765	60,543,237

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.4 Interest rate risk *(continued)*

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2023							
Assets							
Cash and balances with central bank	–	–	–	–	–	1,694,274	1,694,274
Due from and placements with banks and other financial institutions	12,807,186	503,742	6,681,698	–	–	4,184,109	24,176,735
Financial assets at fair value through profit or loss	–	–	148	562,374	–	9,790,562	10,353,084
Financial assets at amortized cost	4,914,085	8,829,836	9,407,654	12,969,183	10,565,214	–	46,685,972
Financial assets at fair value through other comprehensive income	10,660,494	18,296,277	15,623,322	62,375,595	34,315,843	9,418	141,280,949
Loans and advances to customers	174,308,666	14,189,085	756,660	2,460,239	50,836	225,991	191,991,477
Other financial assets	1,416,750	–	–	–	–	6,878,543	8,295,293
Total financial assets	204,107,181	41,818,940	32,469,482	78,367,391	44,931,893	22,782,897	424,477,784
Liabilities							
Due to banks and other financial institutions	9,918,986	715,083	5,868,008	–	–	542,174	17,044,251
Due to customers	154,175,871	129,935,411	47,662,038	97,470	106	1,456,202	333,327,098
Financial liabilities at fair value through profit or loss	–	–	–	–	–	2,703,827	2,703,827
Certificates of deposits issued	–	138,590	1,649,755	–	–	–	1,788,345
Lease liabilities	13,081	26,049	105,546	117,019	–	–	261,695
Debt securities issued	–	–	–	–	7,809,900	–	7,809,900
Other financial liabilities	–	–	–	–	–	7,849,918	7,849,918
Total financial liabilities	164,107,938	130,815,133	55,285,347	214,489	7,810,006	12,552,121	370,785,034
Total interest sensitivity gap	39,999,243	(88,996,193)	(22,815,865)	78,152,902	37,121,887	10,230,776	53,692,750

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.5 Foreign exchange risk

The Bank conducts the majority of its businesses in HK\$, with certain foreign transactions in USD, RMB and other currencies. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. The tables below summarize the Bank's exposure to foreign exchange risk at the end of the year. The tables show the Bank's total assets and liabilities in carrying amounts in HK\$, are categorized by the original currency.

	HK\$	RMB (HK\$ Equivalent)	USD (HK\$ Equivalent)	Others (HK\$ Equivalent)	Total
As at 31 December 2024					
Assets					
Cash and balances with central bank	1,789,694	46,709	15,531	12,912	1,864,846
Due from and placements with banks and other financial institutions	22,470,232	1,462,065	8,211,190	878,094	33,021,581
Financial assets at fair value through profit or loss	1,251,378	560	8,226,432	22,819	9,501,189
Financial assets at amortized cost	9,295,859	4,514,630	25,074,324	8,071,139	46,955,952
Financial assets at fair value through other comprehensive income	4,669,980	11,299,587	109,401,567	16,271,339	141,642,473
Loans and advances to customers	140,928,699	13,880,295	36,187,468	1,727,288	192,723,750
Other financial assets	1,406,561	343,187	5,263,920	401,789	7,415,457
Total financial assets	181,812,403	31,547,033	192,380,432	27,385,380	433,125,248
Liabilities					
Due to banks and other financial institutions	1,614,371	3,046,499	18,938,574	145,383	23,744,827
Due to customers	190,944,277	30,646,225	99,664,236	9,338,268	330,593,006
Financial liabilities at fair value through profit or loss	1,040,153	860	740,116	108,395	1,889,524
Certificates of deposits issued	111,480	–	–	–	111,480
Lease liabilities	218,723	–	–	–	218,723
Debt securities issued	–	–	7,764,376	–	7,764,376
Other financial liabilities	3,187,614	332,908	3,833,539	906,014	8,260,075
Total financial liabilities	197,116,618	34,026,492	130,940,841	10,498,060	372,582,011
Net position	(15,304,215)	(2,479,459)	61,439,591	16,887,320	60,543,237

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Market risk *(continued)*

3.2.5 Foreign exchange risk *(continued)*

	HK\$	RMB (HK\$ Equivalent)	USD (HK\$ Equivalent)	Others (HK\$ Equivalent)	Total
As at 31 December 2023					
Assets					
Cash and balances with central bank	1,610,894	51,490	15,860	16,030	1,694,274
Due from and placements with banks and other financial institutions	12,953,064	1,078,248	9,648,914	496,509	24,176,735
Financial assets at fair value through profit or loss	1,029,968	119,431	9,203,454	231	10,353,084
Financial assets at amortized cost	8,442,152	6,756,066	25,354,673	6,133,081	46,685,972
Financial assets at fair value through other comprehensive income	6,273,322	12,812,933	107,864,736	14,329,958	141,280,949
Loans and advances to customers	152,976,782	11,022,985	26,476,755	1,514,955	191,991,477
Other financial assets	1,219,805	1,050,474	5,827,088	197,926	8,295,293
Total financial assets	184,505,987	32,891,627	184,391,480	22,688,690	424,477,784
Liabilities					
Due to banks and other financial institutions	3,982,382	6,417,577	6,495,259	149,033	17,044,251
Due to customers	212,875,670	33,253,956	80,477,594	6,719,878	333,327,098
Financial liabilities at fair value through profit or loss	1,923,402	1,723	739,689	39,013	2,703,827
Certificates of deposits issued	–	1,788,345	–	–	1,788,345
Lease liabilities	261,695	–	–	–	261,695
Debt securities issued	–	–	7,809,900	–	7,809,900
Other financial liabilities	2,768,496	1,369,673	3,592,138	119,611	7,849,918
Total financial liabilities	221,811,645	42,831,274	99,114,580	7,027,535	370,785,034
Net position	(37,305,658)	(9,939,647)	85,276,900	15,661,155	53,692,750

3.2.6 Other price risk

The Bank is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The Bank considers the exposure to the other price risk to be insignificant.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Bank's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Bank set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals.

3.3.2 Liquidity risk management process

Funding liquidity risk relates to the Bank's ability to fulfill its obligations arising from financial liabilities as they fall due, or its ability to fulfill maturing funding needs, which subsequently affects the Bank's capacity to support deposit withdrawal or drawdown on loan commitments. Effective liquidity risk management helps to sustain the expansion of the Bank's business with liquidity cost and risk under control. The Bank has established and implemented its own liquidity risk management policy per local regulatory requirements in order to fulfill its liquidity risk management. The Asset and Liability Management Committee of the Bank is the decision-making body in balance sheet management and is responsible for coordinating and overseeing all related strategies, including risk management framework and risk appetite. Financial Management Department is responsible for analyzing and monitoring activities related to liquidity risk. Global Markets Department is responsible for managing daily liquidity position and related executions. Internal Audit Department is responsible for conducting periodic review to ensure liquidity risk management framework is effectively implemented.

The cornerstone of the Bank's funding sources is customer deposits. In order to strengthen its financing capabilities, the Bank focuses on building up core deposits while diversifying its funding sources via various channels. Additionally, the Bank maintains a liquidity arrangement with its parent bank, engaging in regular funding transfers to ensure a reliable supply of intragroup backup funding, should the need arise. Monitoring and control of intragroup funding transactions are in line with the same standard as those applied to transactions with third parties. Moreover, the parent bank has implemented internal limits across the group to regulate the extent to which the Bank relies on funding from the parent bank.

The majority of the liquidity risk associated with the Bank arises from the mismatch in maturity between its assets and liabilities. To address this, the Bank conducts regular cash flow analysis and projections for both on- and off-balance sheet items, categorizing them according to different maturity buckets to make sure the Bank can meet its funding requirement. Moreover, the Bank closely monitors off-balance sheet funding obligations (such as commitments or letters of guarantee) and assesses their impact on its liquidity capacity. Furthermore, the Bank strives to maintain a high level of marketability within its asset portfolio, enabling swift monetization in the event of an unforeseen liquidity crunch in the market.

The Bank has implemented a range of limits and indicators to effectively identify and manage liquidity risk. These include liquidity coverage ratio, loan-to-deposit ratio, concentration limits on customer deposits, interbank borrowing utilization ratio, etc. Relevant management information systems are employed to manage liquidity risk on a daily basis to assess liquidity under normal circumstances, and regular stress tests are carried out at least on a monthly basis to evaluate the Bank's ability to withstand significant stress conditions. These stress test scenarios are designed with reference to the HKMA's Supervisory Policy Manuals as well as the historical liquidity stress scenarios. Taking into account historical data and plausible stress conditions, the Bank's stress test assesses the potential impact on all assets, liabilities and off-balance sheet positions, and allows for the estimation of potential funding short-falls. The results of these stress tests will be scrutinized, and appropriate measures will be taken if necessary.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk *(Continued)*

3.3.2 Liquidity risk management process *(Continued)*

The Bank has set up an early warning indicator system for closely monitoring the movement of relevant indicators on a regular basis. In case of a liquidity crisis, Crisis Management Committee will be formed promptly to devise an appropriate contingency funding plan aimed at resolving the crisis. Moreover, drills are conducted on a regular basis to ensure readiness and feasibility of contingency funding plan in times of crisis.

To address unforeseen liquidity requirements, the Bank has set up a liquidity buffer consisting of a robust portfolio of highly liquid assets, such as cash, Exchange Fund Bills/Notes, unencumbered sovereign bonds and other high quality bonds. The liquidity buffer is managed by the Financial Management Department and operated by the Global Markets Department on a daily basis.

3.3.3 Non-derivative financial instruments cash flows

The tables below present the cash flows of the Bank related to non-derivative financial liabilities (including accrued interest) by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Bank's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2024							
Financial liabilities							
Due to banks and other financial institutions	1,328,488	2,292,807	18,884,780	1,165,458	196,718	–	23,868,251
Due to customers	77,171,769	81,711,315	147,374,058	24,716,524	106,242	–	331,079,908
Certificates of deposits issued	–	–	112,469	–	–	–	112,469
Lease liabilities	–	14,014	28,027	81,782	100,095	–	223,918
Debt securities issued	–	3,494	–	89,446	715,565	8,122,158	8,930,663
Other financial liabilities	1,899,866	4,336,750	1,412,412	586,029	6,656	–	8,241,713
Total financial liabilities	80,400,123	88,358,380	167,811,746	26,639,239	1,125,276	8,122,158	372,456,922
	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2023							
Financial liabilities							
Due to banks and other financial institutions	1,692,133	6,826,331	718,777	6,009,028	2,033,712	–	17,279,981
Due to customers	64,728,698	91,909,422	131,328,792	48,512,928	110,631	108	336,590,579
Certificates of deposits issued	–	–	141,969	1,681,150	–	–	1,823,119
Lease liabilities	–	13,469	26,770	107,883	118,647	–	266,769
Debt securities issued	–	–	–	–	–	7,896,356	7,896,356
Other financial liabilities	1,668,278	3,595,627	1,461,522	988,252	27,917	86,456	7,828,052
Total financial liabilities	68,089,109	102,344,849	133,677,830	57,299,241	2,290,907	7,982,920	371,684,856

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk *(continued)*

3.3.4 Derivative financial instruments cash flows

The Bank's derivative financial instruments are either settled on a net basis or a gross basis.

The Bank's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps, forward rate agreements and others, whereas derivative financial instruments that will be settled on a gross basis mainly include currency forward and currency swaps.

The tables below analyse the cash flows of the Bank by remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2024						
Derivative financial instruments settled on net basis	59,226	442,642	2,227,920	3,822,523	995,097	7,547,408
Derivative financial instruments settled on a gross basis						
– Outflow	(93,816,669)	(45,113,704)	(57,538,194)	–	–	(196,468,567)
– Inflow	94,069,835	45,005,925	57,521,521	–	–	196,597,281
Total	253,166	(107,779)	(16,673)	–	–	128,714
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2023						
Derivative financial instruments settled on net basis	139,476	571,183	3,142,975	3,667,301	1,172,479	8,693,414
Derivative financial instruments settled on a gross basis						
– Outflow	(109,458,459)	(99,083,383)	(60,989,271)	–	–	(269,531,113)
– Inflow	108,954,268	98,926,381	60,572,538	–	–	268,453,187
Total	(504,191)	(157,002)	(416,733)	–	–	(1,077,926)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk *(continued)*

3.3.5 Maturity analysis

The tables below analyse the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2024									
Assets									
Cash and balances with central banks	1,864,846	-	-	-	-	-	-	-	1,864,846
Due from and placements with banks and other financial institutions	1,572,223	15,514,321	2,328,522	13,606,515	-	-	-	-	33,021,581
Financial assets at fair value through profit or loss	-	526,859	376,944	574,889	4,681,635	3,340,862	-	-	9,501,189
Financial assets at amortized cost	-	1,045,985	2,347,178	9,745,096	23,109,559	10,708,134	-	-	46,955,952
Financial assets at fair value through other comprehensive income	-	1,291,875	4,362,456	23,954,319	76,921,700	35,102,205	-	9,918	141,642,473
Loans and advances to customers	1,830,250	5,729,502	6,020,300	31,714,882	76,628,899	69,298,677	1,501,240	-	192,723,750
Other financial assets	1,580,707	3,252,012	1,534,884	930,475	104	-	117,275	-	7,415,457
Total financial assets	6,848,026	27,360,554	16,970,284	80,526,176	181,341,897	118,449,878	1,618,515	9,918	433,125,248
Liabilities									
Due to banks and other financial institutions	1,328,488	2,292,256	18,790,804	1,146,697	186,582	-	-	-	23,744,827
Due to customers	77,171,769	81,667,249	147,061,320	24,594,409	98,259	-	-	-	330,593,006
Financial liabilities at fair value through profit or loss	-	298,421	463,129	190,242	517,021	420,711	-	-	1,889,524
Certificates of deposit issued	-	-	111,480	-	-	-	-	-	111,480
Lease liabilities	-	13,637	27,344	79,546	98,196	-	-	-	218,723
Debt securities issued	-	-	-	-	-	7,764,376	-	-	7,764,376
Other financial liabilities	1,918,228	4,336,750	1,412,412	586,029	6,656	-	-	-	8,260,075
Total financial liabilities	80,418,485	88,608,313	167,866,489	26,596,923	906,714	8,185,087	-	-	372,582,011
Net amount on liquidity gap	(73,570,459)	(61,247,759)	(150,896,205)	53,929,253	180,435,183	110,264,791	1,618,515	9,918	60,543,237

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk *(continued)*

3.3.5 Maturity analysis *(continued)*

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2023									
Assets									
Cash and balances with central banks	1,694,274	–	–	–	–	–	–	–	1,694,274
Due from and placements with banks and other financial institutions	2,689,533	14,301,762	403,769	6,681,698	99,973	–	–	–	24,176,735
Financial assets at fair value through profit or loss	–	217,999	456,794	445,658	4,902,498	4,330,135	–	–	10,353,084
Financial assets at amortized cost	–	694,719	4,484,405	8,626,771	21,533,979	11,346,098	–	–	46,685,972
Financial assets at fair value through other comprehensive income	–	3,269,535	4,895,870	23,184,226	75,269,009	34,652,891	–	9,418	141,280,949
Loans and advances to customers	2,873,444	1,472,379	10,979,921	31,245,968	81,301,805	56,181,150	7,936,810	–	191,991,477
Other financial assets	1,459,449	3,242,994	905,885	482,566	1,402,158	599,344	202,897	–	8,295,293
Total financial assets	8,716,700	23,199,388	22,126,644	70,666,887	184,509,422	107,109,618	8,139,707	9,418	424,477,784
Liabilities									
Due to banks and other financial institutions	1,692,133	6,769,027	715,083	5,868,008	2,000,000	–	–	–	17,044,251
Due to customers	64,728,698	90,903,375	129,935,411	47,662,038	97,470	106	–	–	333,327,098
Financial liabilities at fair value through profit or loss	–	735,731	527,988	562,632	464,592	412,884	–	–	2,703,827
Certificates of deposit issued	–	–	138,590	1,649,755	–	–	–	–	1,788,345
Lease liabilities	–	13,081	26,049	105,546	117,019	–	–	–	261,695
Debt securities issued	–	–	–	–	–	7,809,900	–	–	7,809,900
Other financial liabilities	1,690,144	3,595,627	1,461,522	988,252	27,917	86,456	–	–	7,849,918
Total financial liabilities	68,110,975	102,016,841	132,804,643	56,836,231	2,706,998	8,309,346	–	–	370,785,034
Net amount on liquidity gap	(59,394,275)	(78,817,453)	(110,677,999)	13,830,656	181,802,424	98,800,272	8,139,707	9,418	53,692,750

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Liquidity risk *(continued)*

3.3.6 Off-balance sheet items

The tables below list the off-balance sheet items of the Bank according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2024					
Loan commitments and credit related commitments	10,188,831	9,367,389	8,884,649	1,307,154	29,748,023
Guarantees, acceptances and letters of credit	859,504	186,069	36,650	19,320	1,101,543
Total	11,048,335	9,553,458	8,921,299	1,326,474	30,849,566
	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2023					
Loan commitments and credit related commitments	8,957,612	7,196,616	11,263,044	1,399,276	28,816,548
Guarantees, acceptances and letters of credit	421,910	210,620	19,718	4,806	657,054
Total	9,379,522	7,407,236	11,282,762	1,404,082	29,473,602

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Bank are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed periodically.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (ii) Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- (iii) Level 3 inputs are unobservable inputs for the asset or liability.

The Bank uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Bank mainly includes derivatives, debt securities without quotations from active market and debt securities issued. The fair value of bonds is mainly determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards and swaps, interest rate swaps, foreign currency options is estimated by the discounted cash flow method and Black-Scholes model. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spread. Main parameters used in Black-Scholes model include the relevant yield curve, exchange rates, level of volatilities and counterparty's credit spread, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For the unlisted equity held by the Bank, the fair value is determined with reference to unobservable input including the latest available investee's net assets value. Therefore, the instrument has been classified by the Bank as level 3.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis

The tables below summarize the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
As at 31 December 2024				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	40	–	–	40
– Banks and other financial institutions	–	250,852	–	250,852
– Corporate entities	–	206,878	–	206,878
Derivative financial instruments				
– Foreign exchange contracts	–	1,158,693	–	1,158,693
– Interest rate contracts and others	–	7,884,726	–	7,884,726
	40	9,501,149	–	9,501,189
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	38,487	29,106,647	–	29,145,134
– Banks and other financial institutions	–	49,975,344	–	49,975,344
– Corporate entities	–	62,512,077	–	62,512,077
Equity securities				
– Banks and other financial institutions	–	–	9,918	9,918
	38,487	141,594,068	9,918	141,642,473
Total financial assets measured at fair value	38,527	151,095,217	9,918	151,143,662
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	–	–	–
Derivative financial instruments				
– Foreign exchange contracts	–	933,099	–	933,099
– Interest rate contracts and others	–	956,425	–	956,425
Total financial liabilities measured at fair value	–	1,889,524	–	1,889,524

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Fair value of financial assets and liabilities *(continued)*

(b) Financial assets and financial liabilities measured at fair value on a recurring basis (continued)

	Level 1	Level 2	Level 3	Total
As at 31 December 2023				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	148	119,300	–	119,448
– Banks and other financial institutions	–	242,207	–	242,207
– Corporate entities	–	200,867	–	200,867
Derivative financial instruments				
– Foreign exchange contracts	–	877,680	–	877,680
– Interest rate contracts and others	–	8,912,882	–	8,912,882
	148	10,352,936	–	10,353,084
Financial assets at fair value through other comprehensive income				
Debt securities				
– Governments and central banks	309,523	21,620,355	–	21,929,878
– Banks and other financial institutions	–	58,018,236	–	58,018,236
– Corporate entities	–	61,323,417	–	61,323,417
Equity securities				
– Banks and other financial institutions	–	–	9,418	9,418
	309,523	140,962,008	9,418	141,280,949
Total financial assets measured at fair value	309,671	151,314,944	9,418	151,634,033
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	1,788,345	–	1,788,345
Derivative financial instruments				
– Foreign exchange contracts	–	1,772,210	–	1,772,210
– Interest rate contracts and others	–	931,617	–	931,617
Total financial liabilities measured at fair value	–	4,492,172	–	4,492,172

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Fair value of financial assets and liabilities *(continued)*

(c) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair value:

	As at 31 December 2024		As at 31 December 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at amortized cost	46,955,952	47,448,527	46,685,972	46,924,302
Financial liabilities				
Debt securities issued	7,764,376	7,460,148	7,809,900	7,242,896

Fair value hierarchy of financial instruments not measured at fair value:

	Level 1	Level 2	Level 3	Total
As at 31 December 2024				
Financial assets				
Financial assets at amortized cost	–	47,448,527	–	47,448,527
Financial liabilities				
Debt securities issued	–	7,460,148	–	7,460,148
	Level 1	Level 2	Level 3	Total
As at 31 December 2023				
Financial assets				
Financial assets at amortized cost	3,589,801	43,334,501	–	46,924,302
Financial liabilities				
Debt securities issued	–	7,242,896	–	7,242,896

Other financial instruments not carried at fair value are typically short-term in nature or repriced to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Bank are subject to enforceable master netting arrangements or similar agreements. The agreement between the Bank and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Bank are not offset in accordance with HKFRS.

The following tables present the recognized financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2024 and 31 December 2023. The column “net amount” shows the impact on the Bank’s statement of financial position if all set-off rights were exercised.

	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
As at 31 December 2024						
Financial assets						
Derivative financial instruments	9,043,419	–	9,043,419	(1,245,819)	(1,307,297)	6,490,303
Financial assets at fair value through other comprehensive income	14,750,213	–	14,750,213	(14,174,817)	–	575,396
Total	23,793,632	–	23,793,632	(15,420,636)	(1,307,297)	7,065,699
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral advanced	Net amount
Financial liabilities						
Derivative financial instruments	1,889,524	–	1,889,524	(1,249,912)	(1,947,216)	(1,307,604)
Due to banks and other financial institutions	14,174,817	–	14,174,817	(14,174,817)	–	–
Total	16,064,341	–	16,064,341	(15,424,729)	(1,947,216)	(1,307,604)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.5 Offsetting financial assets and financial liabilities *(continued)*

	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
As at 31 December 2023						
Financial assets						
Derivative financial instruments	9,790,562	–	9,790,562	(1,261,037)	(817,382)	7,712,143
Financial assets at fair value through other comprehensive income	3,500,593	–	3,500,593	(3,288,027)	–	212,566
Total	13,291,155	–	13,291,155	(4,549,064)	(817,382)	7,924,709

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset		
				Financial instruments (including non-cash collateral)	Cash collateral advanced	Net amount
Financial liabilities						
Derivative financial instruments	2,703,827	–	2,703,827	(1,275,512)	(2,558,964)	(1,130,649)
Due to banks and other financial institutions	3,288,027	–	3,288,027	(3,288,027)	–	–
Total	5,991,854	–	5,991,854	(4,563,539)	(2,558,964)	(1,130,649)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.6 Capital management

The Bank's objectives in managing "capital", which is a broader concept than the "shareholder equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the markets where the Bank operates;
- To ensure the Bank's ability to maintain a stable operation so as to continue provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank monitors its capital structure through the capital adequacy ratio in alignment with prevailing industry standards. During the year, no material changes were made to the Bank's policy on capital management.

The Bank has complied with all externally imposed capital requirements during 2024.

3.7 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in all banking products, activities, processes and systems and confronted by the Bank in its operational activities.

To establish a robust risk management framework, the Bank has implemented a three lines of defense model for risk management. Each line of defense plays a distinct role in internal control and risk management through facilitating communication and collaboration with an aim to mitigate potential risks and enhance business performance. The first line of defense consists of the frontline units, i.e. the business units, including the Business Department, Branches, Card Centre and Private Banking Service. The personnel of business units continuously identify, assess, manage, and report risks exposed to each unit based on the Bank's risk appetite, policies, procedures, and controls. Additionally, the Retail Credit Management Department and the Retail Business Management Department, acting as the 1.5th line of defense for the retail business, oversee and review the implementation of management requirements by the first line of defense, in accordance with the directives of the second line of defense. The second line of defense consists of risk management units such as the Risk Management Department, the Legal and Compliance Department, the Financial Crime Compliance and Internal Control Department and other dedicated risk management units. They conduct independent risk assessments and reporting in a manner independent of business operations, and are responsible for evaluating compliance with external regulations, corporate governance rules, regulatory frameworks, and internal policies. The third line of defense is represented by the Audit Department, responsible for ensuring the effective functioning of the risk management structure and risk governance arrangements across the business which includes oversight of the first and second lines of defense mentioned earlier. With these three lines of defense in place, risks are effectively identified, managed, and controlled, while ensuring that the business complies with regulatory requirements and internal standards.

The Bank has a practical internal control process which requires the establishment of policies and control procedures for all the critical activities. The Bank practices the fundamental principle of proper segregation of duties and authorization. The Bank employs operational risk management tools such as key risk indicators, self-assessment, operational risk incidents reporting and reviewing which are commonly used in the industry to identify, assess, monitor and control the risks inherent in business activities and products, including purchase of insurance, to mitigate unforeseeable operational risks. Besides, new product/service initiative and outsourcing arrangement are subject to risk assessment and governance process, where potential risks are initially identified and assessed by business unit, and then reviewed and challenged by relevant second lines of defense on the risk-based approach. Any updates to the existing products, services and outsourcing arrangements are also subject to a similar process as mentioned above. Business continuity and disaster recovery plans are established and regular drills are conducted by the Bank to support the stability of business operation. Continuous improvement ensures that risks are manageable.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

4 NET INTEREST INCOME

	2024	2023
Interest income		
Due from and placements with banks and other financial institutions	1,302,561	1,476,388
Loans and advances to customers	9,570,044	9,303,516
Financial assets at amortized cost	2,032,149	2,300,047
Financial assets at fair value through other comprehensive income	9,542,899	9,441,377
	22,447,653	22,521,328
Interest expense		
Due to banks and other financial institutions	(1,105,531)	(1,395,141)
Due to customers	(11,655,755)	(11,958,660)
Debt securities and certificates of deposit issued at amortized cost	(183,306)	(227,079)
	(12,944,592)	(13,580,880)
Net interest income	9,503,061	8,940,448

5 FEE AND COMMISSION INCOME

	2024	2023
Settlement service	52,593	48,401
Interchange service	25,134	24,925
Credit facilities, guarantee and commitment	32,294	30,557
Agency service	860,989	815,192
Depository service	61,589	61,607
Others	6,258	6,072
	1,038,857	986,754
Of which arise from:		
Financial assets/liabilities not at fair value through profit or loss	32,294	30,557
Trust and other fiduciary activities	58,186	46,540

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	2024	2023
Settlement and brokerage service	53,078	51,102
Interchange service	10,806	11,001
Others	6,718	13,533
	70,602	75,636
Of which arise from:		
Financial assets/liabilities not at fair value through profit or loss	10,806	11,001

7 DIVIDEND INCOME

	2024	2023
Financial assets at fair value through other comprehensive income – unlisted investments	150	35

8 NET LOSSES ARISING FROM TRADING ACTIVITIES

	2024	2023
Foreign exchange	(326,426)	(652,656)
Interest rate instruments and others	48,892	(114,622)
Debt securities at fair value through profit or loss	23,341	(37,330)
Interest rate instruments and items under fair value hedge (note 18)	41,067	17,977
Others	(1,164)	(358)
	(214,290)	(786,989)

Net losses on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into HK\$.

Net gains/(losses) on interest rate instruments and others include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

9 OTHER OPERATING INCOME

	2024	2023
Management fee received from a branch of the ultimate holding company (note 36 (g))	3,620	3,501
Others	24,661	46,921
	28,281	50,422

Others mainly include income arising from miscellaneous banking services provided to the Bank's customers.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

10 CHANGE IN EXPECTED CREDIT LOSSES

	2024	2023
Loans and advances to customers	874,339	3,886,284
Financial investments at amortized cost	(1,775)	23,306
Debt investments at fair value through other comprehensive income	42,187	29,207
Cash and balances with central bank	(487)	1,432
Other receivables	113,961	90,382
Due from and placements with banks and other financial institutions	7,567	18,635
Financial guarantees and credit related commitments	(3,504)	6,902
	1,032,288	4,056,148

11 OTHER OPERATING EXPENSES

	2024	2023
Staff costs		
– Salaries and other allowances	587,988	579,924
– Retirement benefit costs (note 12)	50,902	49,498
Loss on disposal of fixed assets	2,177	64
General operational and administrative expenses	359,635	286,159
Depreciation and amortization	70,591	42,051
Depreciation of right-of-use assets (note 23)	164,097	155,195
Auditor's remuneration	5,121	3,948
Buildings administration fee	12,876	12,154
Rental expenses	53,281	52,001
Repairs and maintenance	45,829	38,542
Printing, postage and telegram	36,570	46,159
Directors', senior management's and key personnel's emoluments	25,657	20,764
Management fee paid to a branch of the ultimate holding company	515,547	541,433
Interest expense on lease liabilities (note 23)	5,133	4,356
Others	17,819	21,778
	1,953,223	1,854,026

12 RETIREMENT BENEFIT COSTS

	2024	2023
Pension costs – defined contribution plans	50,902	49,498

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

13 BENEFITS AND INTEREST OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G)

(a) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Bank in respect of their services rendered for the Bank are as follows:

	2024	2023
Directors' fees	2,791	2,760
Salaries, allowances and benefits in kind	2,396	1,876
Bonuses	617	1,023
Retirement benefit costs	–	–
	5,804	5,659

For the year ended 31 December 2024, none of the executive directors received emoluments and emoluments receivable from Bank of Communications Co., Ltd. Hong Kong Branch ("HKBR"), in respect of their service to the Bank and HKBR.

For the year ended 31 December 2023, some of the executive directors received emoluments and emoluments receivable from HKBR, amounting to HK\$4,580,000, in respect of their service to the Bank and HKBR. The portion of the directors' emoluments in relation to the services to the Bank of HK\$2,290,000 has been borne by HKBR and included in management fee paid to a branch of the ultimate holding company (note 11).

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

No significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14 INCOME TAX EXPENSES

	2024	2023
Current tax		
– Hong Kong profits tax	1,192,716	444,011
– Under provision in prior years	246	108
	1,192,962	444,119
Deferred tax (note 22)	(41,667)	(26,612)
Income tax expenses	1,151,295	417,507

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

14 INCOME TAX EXPENSES *(continued)*

The provision for Hong Kong profits tax is calculated at 16.5% (2023: 16.5%) of the estimated assessable profits for the years ended 31 December 2024 and 2023. The major reconciliation items are as follows:

	2024	2023
Profit before tax	6,979,072	2,823,581
Tax calculated at a tax rate of 16.5%	1,151,547	465,891
Tax effect of expense not deductible for tax purpose	360	11
Tax effect arising from income not subject to tax	(691)	(11,726)
Under provision in prior years	246	108
Others	(167)	(36,777)
	1,151,295	417,507

15 CASH AND BALANCES WITH CENTRAL BANK

	2024	2023
Cash	467,809	445,655
Balances with central bank	1,397,984	1,250,053
Less: ECL allowance	(947)	(1,434)
	1,864,846	1,694,274

16 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2024	2023
Due from banks and other financial institutions	2,264,109	2,768,315
Placements with and loans to banks	30,785,637	21,429,018
Less: ECL allowance	(28,165)	(20,598)
	33,021,581	24,176,735

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024	2023
Derivative financial instruments (note 18)	9,043,419	9,790,562
Debt securities at fair value through profit or loss		
– Listed	134,652	248,325
– Unlisted	323,118	314,197
	9,501,189	10,353,084

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Debt securities at fair value through profit or loss are analyzed by issuer as follows:

	2024	2023
Debt securities at fair value through profit or loss		
– Governments and central banks	40	119,448
– Banks and other financial institutions	250,852	242,207
– Corporate entities	206,878	200,867
	457,770	562,522

18 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option), on or before a set date or during a set period, a specific amount of the financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer (over-the-counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

	For hedging			For trading			Total		
	Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values		Contractual/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
As at 31 December 2024									
Foreign exchange contracts	42,832,101	22,494	(11,709)	153,346,345	1,136,199	(921,390)	196,178,446	1,158,693	(933,099)
Interest rate contracts and others	122,203,411	7,039,946	(181,747)	58,676,843	844,780	(774,678)	180,880,254	7,884,726	(956,425)
Total amount of derivative instruments recognized	165,035,512	7,062,440	(193,456)	212,023,188	1,980,979	(1,696,068)	377,058,700	9,043,419	(1,889,524)
As at 31 December 2023									
Foreign exchange contracts	6,445,459	2,127	(152)	262,628,974	875,553	(1,772,058)	269,074,433	877,680	(1,772,210)
Interest rate contracts and others	121,064,808	8,235,377	(333,888)	36,356,132	677,505	(597,729)	157,420,940	8,912,882	(931,617)
Total amount of derivative instruments recognized	127,510,267	8,237,504	(334,040)	298,985,106	1,553,058	(2,369,787)	426,495,373	9,790,562	(2,703,827)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Bank's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Bank undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	2024	2023
Renminbi	22,365,547	39,498,482
United States Dollar	200,837,936	222,637,145
Hong Kong Dollar	140,073,719	150,899,588
Others	13,781,498	13,460,158
Total	377,058,700	426,495,373

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting

(i) Fair value hedge

The Bank applies hedge accounting on hedging its interest rate risk on certain bond investments and loans, as follows:

The Bank holds a portfolio of long-term fixed rate debt securities and loans and therefore is exposed to changes in fair value due to movements in market rates. The Bank manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The interest rate risk component is determined as the change in fair value of the long-term fixed rate debt securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt securities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Bank establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- (1) The effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swaps, which is not reflected in the fair value of the hedged item attributable to the change in interest rate;
- (2) Differences in maturities of the interest rate swaps and the debt securities.

(a) The following tables contain details of the hedging instruments used in the Bank's hedging strategies:

As at 31 December 2024	Carrying amount			Line item on statement of financial position	Fair value changes of the hedging instruments
	Notional	Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	122,203,411	7,039,946	(181,747)	Financial assets/liabilities at fair value through profit or loss	(707,866)

As at 31 December 2023	Carrying amount			Line item on statement of financial position	Fair value changes of the hedging instruments
	Notional	Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	121,064,808	8,235,377	(333,888)	Financial assets/liabilities at fair value through profit or loss	(2,889,735)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting *(continued)*

(i) Fair value hedge (continued)

(b) The following tables contain details of the hedged exposures covered by the Bank's hedging strategies:

As at 31 December 2024	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Line item on statement of financial position	Fair value changes of the hedged items	Ineffectiveness recognized in profit or loss
Fair value hedge					
Interest rate					
Debt investments	92,977,844	(1,529,546)	Financial asset at fair value through other comprehensive income	1,001,160	33,328
Debt investments	20,879,864	(947,641)	Financial asset at amortized cost	(268,833)	7,697
Loans and advances to customers	1,527,495	(30,998)	Loans and advances to customers	16,606	42

As at 31 December 2023	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Line item on statement of financial position	Fair value changes of the hedged items	Ineffectiveness recognized in profit or loss
Fair value hedge					
Interest rate					
Debt investments	93,562,285	(7,323,183)	Financial asset at fair value through other comprehensive income	2,729,041	19,748
Debt investments	18,170,929	(682,551)	Financial asset at amortized cost	135,905	(1,061)
Loans and advances to customers	1,510,889	(47,604)	Loans and advances to customers	42,766	(710)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Hedge accounting *(continued)*

(i) Fair value hedge (continued)

(c) The following tables contain information regarding the effectiveness of the hedging relationships designated by the Bank, as well as the impacts on profit or loss and other comprehensive income:

For the year ended 31 December 2024	Gains/(losses) recognized in other comprehensive Income	Hedge ineffectiveness recognized in profit or loss	Profit or loss line item that includes hedge ineffectiveness
Fair value hedge			
Interest rate	–	41,067	Net gains arising from trading activities
For the year ended 31 December 2023	Gains/(losses) recognized in other comprehensive Income	Hedge ineffectiveness recognized in profit or loss	Profit or loss line item that includes hedge ineffectiveness
Fair value hedge			
Interest rate	–	17,977	Net gains arising from trading activities

(ii) Cash flow hedge

The Bank uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks. The hedged items include debt investments at FVOCI, debt investments at amortized cost, due from and placements with banks and other financial institutions. The Bank mainly reviews critical terms of hedged item and hedging instrument to evaluate the effectiveness of hedging. With the supporting of testing results, the Bank's management considers the hedging relationship to be highly effective.

Movements in the hedging reserve are shown in statement of changes in equity.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	2024	2023
Loans and advances to customers at amortized cost		
Loans and advances to customers	197,997,433	198,218,971
Less: ECL allowance	(5,273,683)	(6,227,494)
	192,723,750	191,991,477

19.2 Analysis of loans and advances to customers by staging

As at 31 December 2024	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	140,990,168	50,427,084	6,580,181	197,997,433
Less: ECL allowance	(183,968)	(667,815)	(4,421,900)	(5,273,683)
Net loans and advances to customers	140,806,200	49,759,269	2,158,281	192,723,750

Note: Included in the Stage 1 balance is a fair value loss of hedging adjustment of HK\$30,998,000 which is not subject to ECL allowance (note 18 (i)(b)).

As at 31 December 2023	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance	Total
Loans and advances to customers				
– Carried at amortized cost (Note)	173,355,402	18,543,250	6,320,319	198,218,971
Less: ECL allowance	(370,846)	(216,646)	(5,640,002)	(6,227,494)
Net loans and advances to customers	172,984,556	18,326,604	680,317	191,991,477

Note: Included in the Stage 1 balance is a fair value loss of hedging adjustment of HK\$47,604,000 which is not subject to ECL allowance (note 18 (i)(b)).

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

19.3 Credit quality of loans and advances to customers

Loans and advances to customers analyzed by security type

	2024	2023
Unsecured loans	46,301,435	38,885,581
Guaranteed loans	52,492,070	60,153,353
Loans secured by collateral	99,203,928	99,180,037
Gross amount of loans and advances to customers before ECL allowance	197,997,433	198,218,971

19.4 Overdue loans

Gross advances to customers overdue for more than 3 months

	2024		2023	
		% of gross advances to customers		% of gross advances to customers
Six months or less but over three months	254,613	0.13%	561,675	0.28%
One year or less but over six months	614,257	0.31%	1,038,732	0.52%
Over one year	4,114,827	2.08%	4,364,198	2.21%
Total gross amount of advances overdue for more than three months	4,983,697	2.52%	5,964,605	3.01%
ECL allowance for Stage 3	4,199,613		5,385,915	
Rescheduled advances excluding those overdue for more than three months	3,287	0.00%	98,799	0.05%

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

20 FINANCIAL INVESTMENTS

	2024	2023
Financial assets at amortized cost		
Debt securities at amortized cost (Note)		
– Listed	17,533,918	18,213,506
– Unlisted	29,468,127	28,520,334
Less: ECL allowance	(46,093)	(47,868)
	46,955,952	46,685,972
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Listed	85,228,596	88,891,006
– Unlisted	56,403,959	52,380,525
Equity securities at fair value through other comprehensive income		
– Unlisted	9,918	9,418
	141,642,473	141,280,949
	188,598,425	187,966,921

Note: Included in the debt securities at amortized cost is a fair value loss of hedging adjustment of HK\$947,641,000 (2023: HK\$682,551,000) which is not subject to ECL allowance (note 18 (i)(b)).

The Bank has designated the investment in equity instrument at fair value through other comprehensive income. The Bank chose this presentation alternative because the investment was made as a prerequisite for the provision of the Bank's certain normal banking business rather than with a view to profit on a subsequent sale, and there is no plan to dispose this investment in short or medium term.

Financial investments analyzed by issuer are as follows:

	2024	2023
Financial assets at amortized cost		
Debt securities at amortized cost		
– Governments and central banks	15,754,279	14,298,435
– Banks and other financial institutions	22,222,675	24,772,755
– Corporate entities	8,978,998	7,614,782
	46,955,952	46,685,972
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income		
– Governments and central banks	29,145,134	21,929,878
– Banks and other financial institutions	49,975,344	58,018,236
– Corporate entities	62,512,077	61,323,417
Equity securities at fair value through other comprehensive income		
– Banks and other financial institutions	9,918	9,418
	141,642,473	141,280,949
	188,598,425	187,966,921

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

21 FIXED ASSETS

	Equipment	Property improvement	Transportation equipment	Total
Cost				
As at 1 January 2024	107,673	110,936	3,126	221,735
Additions	61,035	71,094	–	132,129
Disposals	(3,909)	(10,427)	–	(14,336)
As at 31 December 2024	164,799	171,603	3,126	339,528
Accumulated depreciation				
As at 1 January 2024	(70,560)	(74,245)	(1,650)	(146,455)
Charge for the year	(12,791)	(35,783)	(1,042)	(49,616)
Disposals	3,632	8,507	–	12,139
As at 31 December 2024	(79,719)	(101,521)	(2,692)	(183,932)
Net book value				
As at 31 December 2024	85,080	70,082	434	155,596
	Equipment	Property improvement	Transportation equipment	Total
Cost				
As at 1 January 2023	98,429	89,250	3,126	190,805
Additions	13,703	21,686	–	35,389
Disposals	(4,459)	–	–	(4,459)
As at 31 December 2023	107,673	110,936	3,126	221,735
Accumulated depreciation				
As at 1 January 2023	(62,416)	(55,547)	(608)	(118,571)
Charge for the year	(12,539)	(18,698)	(1,042)	(32,279)
Disposals	4,395	–	–	4,395
As at 31 December 2023	(70,560)	(74,245)	(1,650)	(146,455)
Net book value				
As at 31 December 2023	37,113	36,691	1,476	75,280

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

22 DEFERRED TAX LIABILITIES

The movements on the net deferred tax assets/(liabilities) are as follows:

	2024	2023
As at 1 January	(82,774)	173,195
Deferred tax credited to income statement (note 14)	41,667	26,612
Deferred tax debited to equity	(86,534)	(282,581)
As at 31 December	(127,641)	(82,774)

Deferred tax assets and liabilities are attributable to the following items:

	2024	2023
Deferred tax assets		
ECL allowances	156,945	113,179
Cash flow hedge reserve	4,075	–
Deferred tax liabilities		
Accelerated depreciation allowances	(23,921)	(14,861)
Revaluation of investment securities	(264,740)	(181,092)
	(127,641)	(82,774)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The deferred tax assets and liabilities are to be recovered and settled after one year. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2024	2023
Deferred tax assets	161,020	113,179
Deferred tax liabilities	(288,661)	(195,953)
	(127,641)	(82,774)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

23 RIGHT-OF-USE ASSETS

	2024	2023
Gross		
As at 1 January	416,450	808,594
Additions	126,627	250,796
Reductions	(81,022)	(642,940)
As at 31 December	462,055	416,450
Accumulated depreciation		
As at 1 January	(162,759)	(639,147)
Charge for the year (note 11)	(164,097)	(155,195)
Reductions	77,333	631,583
As at 31 December	(249,523)	(162,759)
Net book value		
As at 1 January	253,691	169,447
As at 31 December	212,532	253,691

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

Right-of-use asset	2024	2023
Properties	212,338	250,938
Equipment	–	2,446
Others	194	307
	212,532	253,691
Lease liabilities	218,723	261,695

(ii) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets (note 11)	2024	2023
Properties	161,499	150,789
Equipment	2,446	4,262
Others	152	144
	164,097	155,195

The statement of profit or loss shows the following amounts relating to leases:

Interest expense on lease liabilities (note 11)	2024	2023
Properties	5,114	4,261
Equipment	14	89
Others	5	6
	5,133	4,356

The total cash outflow for leases in 2024 was HK\$222,058,000 (2023: HK\$206,398,000).

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

23 RIGHT-OF-USE ASSETS *(continued)*

(iii) The Bank's leasing activities and how these are accounted for

The Bank leases various retail stores, equipment and advertising spaces. Rental contracts are typically made for fixed periods of 1 year to 8 years, but may have extension options as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants but leased assets may not be used as security for borrowing purposes.

(iv) Extension and termination options

Extension and termination options are included in a number of retail stores across the Bank. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

24 OTHER ASSETS

	2024	2023
Interest receivable	3,105,695	2,994,218
Less: ECL allowance	(48,642)	(60,766)
	3,057,053	2,933,452
Other receivables, prepayments and others	3,296,832	3,223,272
Less: ECL allowance	(6)	(6)
	3,296,826	3,223,266
Settlement accounts	1,121,959	2,208,468
Intangible assets (note 24(a))	94,773	72,616
Total	7,570,611	8,437,802

(a) Intangible assets

	2024	2023
Cost		
As at 1 January	99,384	44,654
Additions	43,132	54,730
As at 31 December	142,516	99,384
Accumulated amortization		
As at 1 January	(26,768)	(16,996)
Amortization expenses	(20,975)	(9,772)
As at 31 December	(47,743)	(26,768)
Net book value as at 31 December	94,773	72,616

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2024	2023
Deposits from banks and other financial institutions	9,570,010	11,756,224
Subordinated loan from the ultimate holding company	–	2,000,000
Financial assets sold under repurchase agreements (note 35)	14,174,817	3,288,027
Total	23,744,827	17,044,251

On 19 January 2018, the Bank had drawn down a HK\$2,000 million Tier 2 capital subordinated loan from the ultimate holding company due 19 January 2028. It has a floating rate of interest payable quarterly per annum in arrears for each interest period at the aggregate of 1.50% per annum and three month HIBOR. The subordinated loan had been repaid during the year.

26 DUE TO CUSTOMERS

	2024	2023
Demand deposits and current accounts	11,452,563	9,547,573
Saving deposits	65,719,207	55,181,125
Time, call, notice and other deposits	253,421,236	268,598,400
	330,593,006	333,327,098
Including:		
Deposits pledged as collateral	2,507,556	3,551,453

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024	2023
Derivative financial instruments (note 18)	1,889,524	2,703,827

For the years ended 31 December 2024 and 2023, there were no significant changes in the fair value of the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

28 CERTIFICATES OF DEPOSITS ISSUED

	2024	2023
Carried at amortized cost	111,480	–
Carried at fair value through profit or loss	–	1,788,345
	111,480	1,788,345

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

29 DEBT SECURITIES ISSUED

	2024	2023
Tier 2 capital bonds	7,764,376	7,809,900

On 8 July 2021, the Bank issued USD1,000 million Tier 2 capital bonds due 2031. These bonds have an initial distribution rate of 2.304% per annum, payable semi-annually in arrear from year 1 to year 5, and resettable on year 5 at the then-prevailing 5-year U.S. Treasury yield plus 1.4% per annum.

30 OTHER LIABILITIES

	2024	2023
Interest payable	1,887,805	2,729,582
Settlement accounts	2,272,547	1,314,903
Provision for impairment allowances on financial guarantees and credit related commitments	18,362	21,866
Others	4,151,716	3,866,568
Total	8,330,430	7,932,919

31 SHARE CAPITAL

	2024	2023
Share capital as at 1 January and 31 December	37,900,000	37,900,000
Number of Shares	37,900,000,000	37,900,000,000

32 ADDITIONAL EQUITY INSTRUMENT

	2024	2023
Undated non-cumulative subordinated Additional Tier 1 capital securities with US\$500 million	3,871,450	3,871,450

In March 2020, the Bank issued USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities. These capital securities are perpetual securities and listed on the Stock Exchange of Hong Kong Limited. The Bank has the option to redeem these securities on 3 March 2025, and every six months thereafter, or on the occurrence of certain other events. These capital securities have an initial distribution rate of 3.725% per annum, payable semi-annually in arrear from year 1 to year 5, and resettable on year 5 and every 5 years thereafter, at the then-prevailing 5-year U.S. Treasury yield plus 2.525% per annum. The Bank has paid dividends of HK\$145,516,000 to the holders of additional equity instrument for the year ended 31 December 2024 (31 December 2023: HK\$146,115,000). The equity instrument will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. It ranks higher than ordinary shares in the event of a winding-up.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

33 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS AND OTHER COMMITMENTS

Financial guarantees and credit related commitments

The following table indicates the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank has committed to its customers:

	2024	2023
Letters of guarantee	95,236	57,124
Letters of credit commitments	850,967	469,737
Acceptances bills	155,340	130,193
Credit card commitments	4,625,087	4,737,491
Other credit-related commitments		
— Under 1 year	14,931,133	11,416,737
— More than 1 year	10,191,803	12,662,320
	30,849,566	29,473,602
Capital expenditure commitments		
	2024	2023
Contracted but not provided for	17,104	7,795

Operating lease commitments

As at 31 December 2024, the Bank has non-cancellable operating lease commitments of HK\$2,439,000 (31 December 2023: HK\$2,147,000) related to short-term leases, which are the leases with a lease term of 12 months or less.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

34 NOTES TO STATEMENT OF CASH FLOWS

(a) Analysis of the balance of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	2024	2023
Cash and balances with central bank (note 15)	1,864,846	1,694,274
Due from and placements with banks and other financial institutions	16,400,531	17,015,565
	18,265,377	18,709,839

(b) Reconciliation of liabilities arising from financing activities

Debt securities issued		
	2024	2023
At 1 January	7,809,900	7,797,780
Non-cash changes:		
Exchange difference	(45,524)	12,120
At 31 December	7,764,376	7,809,900
Lease liabilities		
	2024	2023
At 1 January	261,695	172,297
Cash flows:		
Payment of lease liabilities	(168,777)	(154,397)
Non-cash changes:		
Additions	124,400	232,093
Interest expense	5,133	4,356
Early termination	(1,112)	(730)
Lease modifications	(2,616)	8,076
At 31 December	218,723	261,695

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

35 COLLATERALS

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties.

Sales and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Bank is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Bank does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as "collateral" for the secured lending because the Bank retains substantially all the risks and rewards of these securities. In addition, the Bank recognizes a financial liability for cash received.

As at 31 December 2024 and 2023, the Bank entered into repurchase agreements with certain counterparties. The proceeds from selling such securities were presented as "financial assets sold under repurchase agreements" (see note 25).

	Transferred assets		Associated liabilities	
	2024	2023	2024	2023
Investment securities	14,750,213	3,500,593	(14,174,817)	(3,288,027)

36 MATERIAL RELATED PARTY TRANSACTIONS

(a) Parent entity

The Bank is controlled by the following entity:

Name	Type	Place of incorporation	Ownership interest	
			2024	2023
Bank of Communications Co., Ltd.	Ultimate parent entity and controlling party	People's Republic of China	100%	100%

(b) Senior management's and key personnel's emoluments

	2024	2023
Salaries, allowances and benefits in kind	15,136	10,367
Bonuses	2,919	3,376
Retirement benefit costs	1,798	1,362
	19,853	15,105

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with the Ministry of Finance of the People's Republic of China ("MOF")

As at 31 December 2024, the MOF holds 17,732 million (31 December 2023: 17,732 million) shares of the ultimate holding company of the Bank which represents 23.88% (31 December 2023: 23.88%) of equity interest of the ultimate holding company of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Bank enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

Details of transactions and outstanding balances are summarized below:

	2024	2023
Bonds issued by MOF	3,661,069	4,425,463
Other assets	12,973	15,034
Interest income	56,112	81,430
Net gains arising from financial investments	2,180	6,085

(d) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2024, HSBC holds 14,136 million (31 December 2023: 14,136 million) shares of the ultimate holding company of the Bank which represents 19.03% (31 December 2023: 19.03%) of total share capital of the Bank. Transactions between the Bank and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transactions and outstanding balances are summarized below:

	2024	2023
Due from and placements with banks and other financial institutions	383,227	695,162
Derivative financial assets	6,479	26,794
Financial assets at amortized cost and fair value through other comprehensive income	1,912,479	2,059,346
Other assets	7,825	8,332
Due to banks and other financial institutions	756,740	1,509,635
Derivative financial liabilities	64,499	171,798
Other liabilities	2,991	15,079
Interest income	113,054	102,924
Interest expense	2,409	4,711
Net losses arising from trading activities	111,089	60,733
Net losses arising from financial investments	7,585	9,348

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(e) Transactions with fellow subsidiaries

The pricing of the transactions with fellow subsidiaries is determined based on normal terms of commercial banks.

Details of transactions and outstanding balances are summarized below:

	2024	2023
Financial assets at fair value through profit or loss	206,878	200,867
Financial assets at fair value through other comprehensive income	306,502	657,376
Loans and advances to customers	3,278,999	412,699
Other assets	108,981	140,291
Due to customers	1,756,014	1,644,530
Other liabilities	5,984	6,965
Interest income	88,137	67,428
Interest expense	7,820	7,857
Fee and commission income	14,176	14,477
Fee and commission expense	16,451	15,290
Net gains arising from trading activities	4,885	4,671
Rental expenses	24,483	22,048
Other operating expenses	16,785	23,478

(f) Transactions with directors, senior management and key personnel

	2024	2023
Loans and advances to customers	19,817	26,404
Due to customers	111,545	106,532
Interest income	395	343
Interest expense	4,560	2,932

Particular of loans made to directors of the Bank pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation for the years ended 31 December 2024 and 2023 are as follows:

	2024	2023
Aggregate amount of relevant transactions outstanding at year end	26	91
Maximum aggregate amount of relevant transactions outstanding during the year	220	397

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

36 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(g) Transactions with the ultimate holding company

Transactions between the Bank and the ultimate holding company are carried out under normal commercial terms and paid at market rates.

Details of transactions and outstanding balances are summarized below:

	2024	2023
Due from and placements with banks and other financial institutions	6,402,850	6,422,100
Derivative financial assets	6,443,205	8,081,257
Other assets	818,782	1,065,955
Due to banks and other financial institutions	3,356,556	9,679,503
Derivative financial liabilities	151,567	228,628
Other liabilities	671,157	951,687
Interest income	219,862	115,069
Interest expense	214,047	596,888
Net gains arising from trading activities	1,841,244	1,354,169
Other operating income (note 9)	3,620	3,501
Other operating expenses	566,050	593,619
Purchase of loan and advances	10,000,415	3,851,817
Disposal of loan and advances	–	2,779,917

37 SEGMENTAL ANALYSIS

The Bank manages the business mainly from an operating segment perspective and the majority of the Bank's revenues, profits before tax and assets are derived from Hong Kong. The Bank is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others" segment mainly comprises unallocated revenue and expenses and corporate expenses.

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

37 SEGMENTAL ANALYSIS *(continued)*

The business information of the Bank is summarized as follows:

	2024				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	5,163,983	(7,249,614)	11,588,692	–	9,503,061
Inter-segment net interest (expense)/income	(4,092,179)	9,375,154	(5,282,975)	–	–
Net interest income	1,071,804	2,125,540	6,305,717	–	9,503,061
Net fee and commission income/(expense)	292,331	703,276	(24,669)	(2,683)	968,255
Net losses arising from trading activities	–	–	(214,290)	–	(214,290)
Net losses arising from financial investments	–	–	(320,874)	–	(320,874)
Dividend income	–	–	–	150	150
Other operating income	881	23,277	195	3,928	28,281
Total operating income	1,365,016	2,852,093	5,746,079	1,395	9,964,583
Change in expected credit losses	(531,098)	(327,821)	(170,749)	(2,620)	(1,032,288)
Other operating expenses					
– Depreciation and amortization	(3,609)	(217,393)	(25)	(13,661)	(234,688)
– Others	(177,274)	(1,439,421)	(88,226)	(13,614)	(1,718,535)
Profit before tax	653,035	867,458	5,487,079	(28,500)	6,979,072
Income tax expenses	–	–	–	(1,151,295)	(1,151,295)
Net profit/(loss) for the year	653,035	867,458	5,487,079	(1,179,795)	5,827,777
Depreciation and amortization	(3,609)	(217,393)	(25)	(13,661)	(234,688)
Capital expenditure	(2,082)	(131,495)	(83)	(41,601)	(175,261)
As at 31 December 2024					
Segment assets	155,173,684	64,186,944	214,027,206	–	433,387,834
Unallocated assets	–	–	–	260,696	260,696
Total assets	155,173,684	64,186,944	214,027,206	260,696	433,648,530
Segment liabilities	(52,709,273)	(281,112,813)	(37,392,878)	–	(371,214,964)
Unallocated liabilities	–	–	–	(2,313,499)	(2,313,499)
Total liabilities	(52,709,273)	(281,112,813)	(37,392,878)	(2,313,499)	(373,528,463)

Notes to the Financial Statements

For the year ended 31 December 2024

(All amounts expressed in thousands of HK\$ unless otherwise stated)

37 SEGMENTAL ANALYSIS *(continued)*

	2023				
	Corporate Banking	Personal Banking	Treasury	Others	Total
External net interest income/(expense)	4,306,551	(6,592,826)	11,226,723	–	8,940,448
Inter-segment net interest (expense)/income	(2,900,556)	8,804,495	(5,903,939)	–	–
Net interest income	1,405,995	2,211,669	5,322,784	–	8,940,448
Net fee and commission income/(expense)	285,112	628,345	(26,917)	24,578	911,118
Net losses arising from trading activities	–	–	(786,989)	–	(786,989)
Net losses arising from financial investments	–	–	(381,279)	–	(381,279)
Dividend income	–	–	–	35	35
Other operating income	1,691	37,593	1,372	9,766	50,422
Total operating income	1,692,798	2,877,607	4,128,971	34,379	8,733,755
Change in expected credit losses	(3,908,247)	(7,796)	(129,578)	(10,527)	(4,056,148)
Other operating expenses					
– Depreciation and amortization	(623)	(186,787)	(59)	(9,777)	(197,246)
– Others	(172,970)	(1,399,886)	(90,163)	6,239	(1,656,780)
(Loss)/profit before tax	(2,389,042)	1,283,138	3,909,171	20,314	2,823,581
Income tax expenses	–	–	–	(417,507)	(417,507)
Net (loss)/profit for the year	(2,389,042)	1,283,138	3,909,171	(397,193)	2,406,074
Depreciation and amortization	(623)	(186,787)	(59)	(9,777)	(197,246)
Capital expenditure	(8,154)	(80,658)	–	(2,197)	(91,009)
As at 31 December 2023					
Segment assets	130,578,530	62,787,460	230,321,876	–	423,687,866
Unallocated assets	–	–	–	1,266,498	1,266,498
Total assets	130,578,530	62,787,460	230,321,876	1,266,498	424,954,364
Segment liabilities	(68,899,490)	(269,185,297)	(31,907,747)	–	(369,992,534)
Unallocated liabilities	–	–	–	(958,275)	(958,275)
Total liabilities	(68,899,490)	(269,185,297)	(31,907,747)	(958,275)	(370,950,809)

38 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 15 January 2025, the Bank transferred retained earnings of HK\$7,099,807,000 to share capital. Upon completion, the Bank's share capital increased from HK\$37,900,000,000 to HK\$44,999,807,000 and the number of shares of the Bank remained unchanged.

On 3 March 2025, the Bank redeemed the USD500 million undated non-cumulative subordinated Additional Tier 1 capital securities.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

The following information is disclosed as part of accompanying information to the financial statements and does not form part of the audited financial statements.

1 Corporate Governance

Sound corporate governance serves as a mechanism for assuring sustainable development, it is essential for the prudent operation of a commercial bank as well. The Bank aims to fulfil its corporate governance responsibilities and pushes for the establishment of a corporate governance policy and mechanism on an ongoing basis. To this end, the allocation of duties and authorities was refined within the Specialized Committees under the Board of Directors ("Board") to enhance the effectiveness in corporate governance practices on an ongoing basis.

The Bank has complied with, in all material aspects, the requirements set out in the Supervisory Policy Manual Module, CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority ("HKMA"). The Bank has established a corporate governance structure comprising the Sole Shareholder, the Board of Directors, the Specialized Committees, Senior Management and Management-level Committees. This structure is characterized by well-defined authorities and responsibilities, balanced equilibrium in the composition as well as coordinated and independent operations.

Six (6) Specialized Committees were set up under the Board. They are Strategy and Corporate Governance Committee set up in September 2023, Green Finance Management Committee set up in December 2022 as well as Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee set up in June 2017. These committees are responsible for reporting their activities to the Board, and assisting the Board in executing their duties as authorized by the Board.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

2 Board of Directors

The Board plays a core role within the Bank's corporate governance framework, it assumes the ultimate responsibilities towards the shareholders, depositors, creditors, employees, other stakeholders and supervisors of the Bank. In discharging its responsibilities, the Board strives to establish a set of sound risk management and internal control systems that safeguard the Bank's business and operations managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations.

Generally, the Board discharges the key responsibilities as follows:

- (1) Develop objectives and strategies, and oversee their execution;
- (2) Review and monitor the risk management and internal control system;
- (3) Appoint senior management members and oversee their performance;
- (4) Establish corporate values and standards to promote ethical and responsible professional conduct among staff;
- (5) Oversee and supervise Senior Management's implementation of the remuneration system; and
- (6) Review and approve the annual business plans and financial budgets.

During the year, seven (7) Board meetings were convened and the following major tasks were performed by the Board:

- (1) Reviewed and approve repayment of HK\$2 billion tier 2 capital loans;
- (2) Reviewed the implementation of the Outline Development Plan for the Medium and Long-term Strategy and approved the suggestions of the main development goals;
- (3) Reviewed and approved the 2024 annual financial budget and 2023 financial accounts;
- (4) Approved the appointment of 2 Executive Directors upon receipt of consent in writing from the HKMA;
- (5) Approved the change of Chief Risk Officer;
- (6) Approved the redemption of US\$500 million of additional Tier 1 capital in the first quarter of 2025;
- (7) Approved the transfer of retained earnings to share capital up to a maximum of HK\$45 billion;
- (8) Reviewed and approved the overall risk management report, risk appetite, recovery plan, report of Internal Capital Adequacy Assessment Process ("ICAAP") as well as various risk management and capital management policies;
- (9) Received a briefing on the report on the implementation of bank culture, and reviewed and approved the remuneration policies;
- (10) Reviewed the tasks carried out by the Specialized Committees; and
- (11) Received a briefing on the annual statement of the business continuity plan and the business continuity drill report.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

3 Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee is responsible for assisting the Board of Directors in providing strategic and corporate governance direction to the Bank. This includes the following responsibilities:

- (1) Review the Bank's strategy and development plan as well as major equity investments and asset acquisitions, etc.;
- (2) Monitor and evaluate the execution of the Bank's strategies and development plans as well as major equity investments and asset acquisitions, etc., and make recommendations to the Board of Directors;
- (3) Review the Bank's major organizational restructuring and layout plans and make recommendations to the Board of Directors; and
- (4) Develop and regularly review the Bank's compliance with legal, regulatory and corporate governance standards, and make recommendations to the Board of Directors.

According to the terms of reference of the Strategy and Corporate Governance Committee, the Committee shall be chaired by the Chairman of the Board. The members of the committee consist of both executive directors and non-executive directors, as well as any person who is deemed appropriate and necessary according to the Board. The current members of the Committee are Mr. Xiao Ting and Mr. Shan Jidong. Mr. Xiao Ting was appointed as Chairman of Strategy and Corporate Governance Committee on 16 August 2024. Mr. Shan Jidong was appointed as member of Strategy and Corporate Governance Committee on 18 December 2024. Ms. Wu Ye ceased to be the member of Strategy and Corporate Governance Committee on 20 May 2024. Mr. Meng Yu ceased to be the member of Strategy and Corporate Governance Committee on 9 January 2025. Mr. Shan Zengjian ceased to be the member of Strategy and Corporate Governance Committee on 26 March 2025.

During the year, four (4) meetings of the Strategy and Corporate Governance Committee were convened and the following major tasks were performed:

- (1) Reviewed and recommended the repayment of HK\$2 billion tier 2 capital loans for the Board's approval;
- (2) Reviewed and recommended the implementation of the Outline Development Plan for the Medium and Long-term Strategy and the suggestions of the main development goals for the Board's approval;
- (3) Reviewed and recommended the redemption of US\$500 million of additional Tier 1 capital in the first quarter of 2025 for the Board's approval;
- (4) Reviewed and recommended the transfer of retained earnings to share capital up to a maximum of HK\$45 billion for the Board's approval; and
- (5) Reviewed and recommended the update of organizational chart of the Bank for the Board's approval.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

4 Audit Committee

The Audit Committee, established and authorized by the Board, is primarily responsible for monitoring the effectiveness of the Bank's Internal Audit function and work performed by external auditors. The main duties of the Audit Committee are as follows:

- (1) Draw up, review and update periodically the Terms of Reference of the Audit Committee for the Board's approval;
- (2) Establish the responsibility and independence of the Internal Audit function, and to provide guidance to the Audit Department of the Bank;
- (3) Approve the Audit Charter drawn up and updated periodically by the Audit Department of the Bank;
- (4) Approve the annual Audit Plan and the related manpower and financial resources required after identifying the areas of risk within the Bank's operations to be covered;
- (5) Assess all major aspects of the Internal Audit function periodically, and to make recommendations to enhance its effectiveness;
- (6) Receive audit reports and review significant recommendations and implementation plans and furthermore, to ensure that the Senior Management has taken timely remedial actions as necessary to address the internal control weaknesses, the areas of non-compliance with the laws, regulations and policies as well as issues identified by external auditors;
- (7) Review ad-hoc non-compliance incident report and HKMA on-site examination reports, etc.;
- (8) Recommend to the Board with regard to the appointment, remuneration and termination of external auditors, to consider their audit work plans, and to review their audit conclusions and significant recommendations;
- (9) Review accounting policies, financial conditions and financial reporting process; and
- (10) Provide opportunities for the external and internal auditors to meet and discuss their respective findings.

According to the Terms of Reference of the Audit Committee, all Audit Committee members shall be Non-executive Directors appointed by the Board. Besides, the majority of these members (including the Chairman) shall be Independent Non-executive Directors. All current members of the Audit Committee are Independent Non-executive Directors, namely Mr. Tang Kwai Chang (Chairman of the Audit Committee), Mr. Chan Ka Lok and Ms. Chan Ching Har Eliza.

During the year, four (4) meetings of the Audit Committee were convened.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

5 Nomination Committee

The Nomination Committee discharges the following main duties:

- (1) Identify individuals suitably qualified to become members of the Board or of Senior Management, and select, or make recommendations to the Board on the selection of, individuals nominated for directorships and Senior Management positions; and ensure objectivity and independence in the selection process for Board members and Senior Management;
- (2) Make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- (3) Review the independence of the Independent Non-executive Directors;
- (4) Undertake regular assessments of the Board's performance to assist the Board in reviewing the efficiency and effectiveness of the functioning of the Board; and
- (5) Undertake regular assessments of the ongoing suitability of each Board member.

The Nomination Committee shall be chaired by an Independent Non-executive Director, and the majority of the members shall be Independent Non-executive Directors. All current members of the Nomination Committee are Independent Non-executive Directors, namely Ms. Chan Ching Har Eliza (Chairman of the Nomination Committee), Mr. Chan Ka Lok and Mr. Lam Yim Nam.

During the year, five (5) meetings of the Nomination Committee were convened and the following major tasks were performed:

- (1) Considered the matters related to the change and appointment of Directors and Senior Management;
- (2) Reviewed the Terms of Reference of the Nomination Committee;
- (3) Reviewed the policies related to the succession and appointment of Directors and Senior Management; and
- (4) Evaluated the independence of the Independent Non-executive Directors, performance of the Board, its Specialized Committees and the Board members.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

6 Remuneration Committee

The Remuneration Committee discharges the following main duties:

- (1) Make recommendations to the Board on the Bank's remuneration policy and structure for all Directors, Chief Executive (including Alternate Chief Executives), Senior Management and Key Personnel, and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- (2) Make recommendations to the Board on the remuneration by reference to corporate goals and objectives resolved by the Board, and on the remuneration of Directors, Chief Executive, Senior Management and Key Personnel;
- (3) Make recommendations in respect of remuneration policy and practices to the Board, and ensure the remuneration policy is consistent with the principles set out in the Supervisory Policy Manual Module, CG-5 "Guideline on a Sound Remuneration System" of HKMA and any other legal or regulatory requirements;
- (4) Develop and promote a sound bank culture according to the "Bank Culture Reform" guidance issued by HKMA, support prudent risk management and contribute towards promoting proper staff behavior leading to positive customer outcomes and high ethical standards in the banking industry; lay down the Bank's ethical standards and promote them to all levels of staff; review and approve the proposed amendment to the Code of Conduct; ensure the Bank has adequate systems to enforce the Code of Conduct; resolve complex ethical dilemmas;
- (5) Exercise competent and independent judgement on remuneration policies and practices, as well as the incentives thereby created for managing risk, capital and liquidity; work closely with other relevant Board Committees and consulting risk control functions in the evaluation of the incentives created by the remuneration system; and
- (6) Ensure that a regular review of the Bank's remuneration system and its operation, either internally conducted or externally commissioned, is carried out independently of management, and the result is submitted to the HKMA.

The Remuneration Committee shall be chaired by an Independent Non-executive Director, and the majority of the members shall be Independent Non-executive Directors. Current members of the Remuneration Committee are Mr. Chan Ka Lok (Chairman of the Remuneration Committee) and Mr. Tang Kwai Chang. Mr. Shan Zengjian was appointed as the member of the Remuneration Committee on 27 November 2024, and he ceased to be the member of the Remuneration Committee on 26 March 2025.

During the year, five (5) meetings of the Remuneration Committee were convened and the following major tasks were performed:

- (1) Reviewed the remuneration policies;
- (2) Reviewed the Terms of Reference of the Remuneration Committee;
- (3) Reviewed the Staff's Code of Conduct;
- (4) Considered the proposal on staff bonus for year 2023 and the proposal on salary adjustment for year 2024;
- (5) Considered the report of independent assessment on internal control of remuneration system prepared by a consultancy firm;
- (6) Listened to the report of annual audit review on remuneration policies; and
- (7) Listened to the report of bank culture implementation.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

7 Risk Management Committee

The Risk Management Committee discharges the following functions:

- (1) Review the Bank's risk appetite and risk management strategy and evaluate the level of each type of risk;
- (2) Identify, assess and manage different risks faced by the Bank;
- (3) Review and assess whether the Bank's risk management process and system as well as internal control are adequate or not;
- (4) Review and oversee compliance of risk management policies, procedures, system and internal control; and
- (5) Review the ICAAP procedure and report annually and ensure the Bank has adequate capital to mitigate major risks after assessing the business and risk strategy.

Currently all members of the Risk Management Committee are Independent Non-executive Directors, namely Mr. Lam Yim Nam (Chairman of the Risk Management Committee), Mr. Tang Kwai Chang and Ms. Chan Ching Har Eliza.

During the year, five (5) meetings of the Risk Management Committee were convened and the following major tasks were performed:

- (1) Reviewed and recommended risk management strategy, as well as risk level/appetite acceptable by the Bank for Board's approval;
- (2) Reviewed and assessed whether the risk management structure and policies are capable to identify, measure, monitor and control the risks posed to the Bank; and whether the risk management structure and policies function effectively;
- (3) Reviewed the reports from the Comprehensive Risk Management and Internal Control Committee on risk exposures and risk management activities;
- (4) Reviewed, approved and oversaw major risk management policies and measures;
- (5) Reviewed major/high-risk exposures or transactions, including major disposals, transactions, write-offs of non-performing assets;
- (6) Reviewed risk appetite and risk limits; and
- (7) Reviewed and recommended the Annual Recovery Plan for Board's approval.

Unaudited Supplementary Financial Information

For the year ended 31 December 2024

8 Green Finance Management Committee

The Green Finance Management Committee discharges the following main duties:

- (1) Oversee the implementation of the development and innovation initiatives in the field of green finance across all units and departments;
- (2) Review or receive a briefing on the relevant green finance reports and other major issues;
- (3) Review and approve green finance-related policies as well as major rules; and
- (4) Assess green finance governance and development on a regular basis.

According to the terms of reference of the Green Finance Management Committee, the Committee shall be chaired by the Chief Executive, and the members of the Committee shall be all Deputy Chief Executives. The current members of the Committee are Mr. Meng Yu (Chairman of the Green Finance Management Committee), Mr. Shan Jidong (Vice Chairman of the Green Finance Management Committee), Mr. Zhu Bin, Mr. Fan Chaorong, Mr. Ip Tsz Kin, Mr. Zhang Weizhong and Mr. Yang Hao. Mr. Shan Jidong was appointed as Vice Chairman of Green Finance Management Committee on 28 June 2024.

During the year, three (3) meetings of the Green Finance Management Committee were convened and the following major tasks were performed:

- (1) Reviewed and approved climate-related disclosure of the Bank;
- (2) Reviewed and approved the governance measures related to green finance;
- (3) Received a briefing on the report on green finance development, climate risk management, market and regulatory trends.

Bank of Communications (Hong Kong) Limited

Unit B B/F & G/F, Unit C G/F, 1-3/F, 16/F Rm01 & 18/F Wheelock House, 20 Pedder Street, Central, Hong Kong
www.hk.bankcomm.com