Report of the Directors and Audited Financial Statements

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

Year ended 31 December 2021

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

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BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Bank of China International Limited (the "Company") for the year ended 31 December 2021.

Principal activities

The Company is a restricted licence bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Company are the provision of banking, financial and other related services.

Business review

No business review is presented for the year ended 31 December 2021 as the Company has 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 BOC International Holdings Limited.

Results and appropriations

The results of the Company for the year are set out in the income statement on page 6.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2021.

Shares issued

There were no movements in the Company's share capital during the year. Details of the share capital are set out in note 19 to the financial statements.

Directors

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

Wang Zhongze
Tang Fong Chai Francis (retired on 12 June 2021)
Qian Feng
Lam Kwong Siu
Ip Sio Kai
Wong Wai Kwan Anna
Lie Kong Sang (resigned on 7 July 2021)
Wu Shiqiang (appointed on 22 June 2021; resigned on 31 January 2022)
Ng Kim Lam (appointed on 20 April 2022)
Suen Man Tak (appointed on 26 April 2022)

In accordance with the Company's articles of association, all directors retire by rotation and, being eligible, offer themselves for re-election.

Directors' interests

The Company has entered into an agreement with it fellow subsidiary BOCI Finance Limited, under which the Company grants BOCI Finance Limited a funded participation in all, or as case may be, part of the loans and advances of the Company.

Save for the above, no contracts of significance in relation to the Company's business to which the Company, any of its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests (continued)

At no time during the year was the Company, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors nor a connected entity of the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Management contracts

The Company has entered into an agreement with its intermediate holding company (BOC International Holdings Limited), under which the intermediate holding company provides administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by both parties giving not less than one month's written notice. In addition, the Company has entered into agreements with its fellow subsidiaries (BOCI Securities Limited and BOCI Private Wealth Management Limited), under which the Company provides referral services to the fellow subsidiaries in return for a fee which is agreed and reviewed on an annual basis.

The Company has an intra-group arrangement agreement with its intermediate holding company (BOC International Holdings Limited) under which the Company transfers its payment obligations or indebtedness liabilities to the intermediate holding company. The intermediate holding company is entitled to set off payments, sums and/ or liabilities owed by it to any subsidiaries against any payments, sums and/ or liabilities owed to it by any subsidiaries. During the year, no offsetting payments on intragroup transactions have been made by the Company.

Permitted indemnity provision

Every director shall be indemnified against all liabilities incurred by him/ her to the extent permitted by the Hong Kong Companies Ordinance. The intermediate holding company has maintained insurance for the benefit of directors against liability.

Compliance with the Banking (Disclosure) Rules

The Company has fully complied with the requirements set out in the Banking (Disclosure) Rules under the Hong Kong Banking Ordinance.

Auditors

During the year, Ernst & Young ("EY") retired as auditor of the Company upon expiration of its terms of office and PricewaterhouseCoopers was appointed by the directors as the new auditor.

The financial statements for the year ended 31 December 2021 have been audited by Messrs PricewaterhouseCoopers who will retire, and being eligible offer themselves for re-appointment as auditor of the Company.

ON BEHALF OF THE BOARD

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Geng Min Catherine
Secretary

Hong Kong
28 April 2022

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Independent Auditor's Report

To the Members of Bank of China International Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Bank of China International Limited (the "Company"), which are set out on pages 6 to 72, comprise:

- the statement of financial position as at 31 December 2021;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company 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.

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Independent Auditor's Report (continued)

To the Members of Bank of China International Limited
(incorporated in Hong Kong with limited liability)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and supplementary financial information, but does not include 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 Directors and the Audit Committee 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

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Independent Auditor's Report (continued)

To the Members of Bank of China International Limited
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 Company 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.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 April 2022

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

INCOME STATEMENT

Year ended 31 December 2021

	Notes	2021 HK$	2020 HK$
Interest income	4	105,772,112	165,057,202
Interest expense	4	(7,735,397)	(53,574,078)
Net interest income	4	98,036,715	111,483,124
Fee and commission income	5	273,065,422	184,342,385
Fee and commission expense	5	(278,854)	(191,004)
Net fee and commission income	5	272,786,568	184,151,381
Net trading gains	6	3,046,673	11,827,638
Operating income		373,869,956	307,462,143
Operating expenses	8	(227,845,009)	(246,312,063)
Profit before impairment allowances		146,024,947	61,150,080
Net charge of impairment allowances	9	(78,052)	(96,659)
Profit before taxation		145,946,895	61,053,421
Income tax expense	10	(24,054,760)	(10,071,769)
Profit for the year		121,892,135	50,981,652

The accompanying notes form an integral part of these financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 HK$	2020 HK$
Profit for the year	121,892,135	50,981,652
Total comprehensive income for the year	121,892,135	50,981,652

The accompanying notes form an integral part of these financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
ASSETS				
Cash and due from banks	11	1,133,588,346	2,669,489,375	2,790,627,996
Placements with banks	12	2,104,016,130	1,397,338,814	1,682,078,147
Derivative financial instruments	13	4,768,569	7,216,849	9,270,488
Loans and advances to customers	14	4,744,657,425	4,891,463,779	5,048,309,514
Debt instruments at fair value through other comprehensive income	15	-	174,994	174,997
Debt instruments at amortised cost	15	699,974,585	349,976,519	149,610,910
Deferred tax assets	10	61,143	52,543	39,461
Investment in a subsidiary		-	-	136
Other assets	16	6,110,731	8,614,562	6,613,136
Total assets		8,693,176,929	9,324,327,435	9,686,724,785
LIABILITIES				
Deposits from customers	17	6,778,104,894	7,537,498,751	7,958,172,687
Amounts due to an intermediate holding company	18	68,009,923	79,574,047	76,865,997
Derivative financial instruments	13	1,917,863	3,688,104	5,035,739
Tax payable		17,591,240	5,341,298	7,258,422
Other liabilities		43,428,211	35,992,572	28,140,929
Total liabilities		6,909,052,131	7,662,094,772	8,075,473,774
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	19	1,000,000,000	1,000,000,000	1,000,000,000
Reserves		784,124,798	662,232,663	611,251,011
		1,784,124,798	1,662,232,663	1,611,251,011
Total liabilities and equity		8,693,176,929	9,324,327,435	9,686,724,785

The financial statements on pages 6 to 72 were approved by the Board of Directors on 28 April 2022 and were signed on its behalf:

Geng Min Catherine Secretary	Qian Feng Director	Wang Zhongze Director	Lam Kwong Siu Director

The accompanying notes form an integral part of these financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
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STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Share capital HK$	Regulatory reserve[1] HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2020	1,000,000,000	50,441,256	560,809,755	1,611,251,011
Profit for the year	-	-	50,981,652	50,981,652
Total comprehensive income for the year	-	-	50,981,652	50,981,652
Transferred from regulatory reserve[2]	-	(1,553,463)	1,553,463	-
Balance at 31 December 2020 and 1 January 2021	1,000,000,000	48,887,793	613,344,870	1,662,232,663
Profit for the year	-	-	121,892,135	121,892,135
Total comprehensive income for the year	-	-	121,892,135	121,892,135
Transferred from regulatory reserve[2]	-	(1,474,200)	1,474,200	-
Balance at 31 December 2021	1,000,000,000	47,413,593	736,711,205	1,784,124,798

1 As at 31 December 2021, HK$47,413,593 (2020: HK$48,887,793) was set aside as the regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserves are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority ("HKMA").

2 During the year ended 31 December 2021, the Company transferred HK$1,474,200 from the regulatory reserve to the retained earnings (2020: transferred HK$1,553,463 from the regulatory reserve to the retained earnings).

The accompanying notes form an integral part of these financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
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STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021 HK$	2020 HK$
Cash flows from operating activities			
Net cash (used in)/ generated from operating activities	21	(1,418,861,966)	941,853,018
Cash flows from investing activities			
Proceeds from disposal of debt instruments at fair value through other comprehensive income		175,000	-
Purchase of debt instruments at amortised cost		(3,599,939,963)	(1,098,970,062)
Proceeds from redemption of debt instruments at amortised cost		3,250,000,000	900,000,000
Net cash used in investing activities		(349,764,963)	(198,970,062)
Net (decrease)/increase in cash and cash equivalents		(1,768,626,929)	742,882,956
Cash and cash equivalents at beginning of year		2,902,217,017	2,159,334,061
Cash and cash equivalents at end of year		1,133,590,088	2,902,217,017
Analysis of balances of cash and cash equivalents:			
Cash and due from banks with original maturity within three months		1,133,590,088	2,669,535,370
Placements with banks with original maturity within three months		-	232,681,647
		1,133,590,088	2,902,217,017

The accompanying notes form an integral part of these financial statements.

1. CORPORATE AND COMPANY INFORMATION

Bank of China International Limited (the "Company") is a limited liability company incorporated in Hong Kong. The address of its registered office is 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The Company is a restricted licence bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Company are the provision of banking, financial and other related services.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 28 April 2022.

In the opinion of the directors, the immediate holding company of the Company is BOCI Asia Limited, which is incorporated in Hong Kong.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

The Company had one wholly owned subsidiary Modenia Limited and therefore prepared consolidated financial statements in the previous year. The consolidated financial statements for the year ended 31 December 2020 was audited by the Company's predecessor auditor. Modenia Limited had no business operation for certain years before its deregistration on 27 March 2020. Therefore, Modenia Limited was insignificant to the consolidated income statement for the year ended 31 December 2020 and there was no difference in the Company's statements of financial positions on the group basis and standing alone basis as at 31 December 2020.

In the current year, the Company is no longer required to prepare consolidated financial statements. For the year ended 31 December 2021, the Company has prepared separate financial statements for the first time under HKFRS 1 and has presented the third year statement of financial position as at 1 January 2020 to this first set of separate financial statements accordingly. As at 1 January 2021, the Company measures all the assets and liabilities in the first set of separate financial statements at the same amounts as those already used in the consolidated financial statements, except for consolidated adjustments.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 24 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Company

The Company has adopted the following revised HKFRSs for the first time for the current year's financial statements.

- *Interest Rate Benchmark Reform –Phase 2 -- amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform"). The amendments have not had a material effect on the Company's financial statements.

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Company in 2021

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the financial statements.

Accounting Guideline 5 (Revised)	*Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRS Standards 2018–2020*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of accounting policies*[2]
Amendments to HKAS 8	*Definition of accounting estimates*[2]
Amendments to HKAS 12	*Deferred tax related to assets and liabilities arising from a single transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*[1]
Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Company in 2021 (continued)

HK Int 5 (2020)	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*[2]

[1] Effective for annual periods beginning on or after 1 January 2022
[2] Effective for annual periods beginning on or after 1 January 2023
[3] No mandatory effective date yet determined but available for adoption

The above new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Further information about those HKFRSs that are expected to be applicable to the Company is as follows: (continued)

- Accounting Guideline 5 (Revised), "Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations" ("AG 5"). The amendments revise to reflect a clearer rationale for why the transaction described in paragraph 5 of AG 5 is not a business combination and why, in practice, a principle similar to that for a reverse acquisition is applied to those transactions is provided. New disclosure requirements for common control combinations are added to paragraph 19 of AG 5. The accounting for change in non-controlling interests as a result of common control combination is clarified in the example in AG 5. The terminologies and references in AG 5 are updated to align with existing HKFRSs. The application of the amendments will not have a material impact on the Company's financial statements.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Company in 2021 (continued)

- HKAS 8 (Amendments), "Definition of Accounting Estimates". The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The application of the amendments will not have a material impact on the Company's financial statements.

- HKAS 12 (Amendments), "Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The application of the amendments will not have a material impact on the Company's financial statements.

- HKAS 16 (Amendments), "Property, Plant and Equipment: Proceeds before Intended Use". The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The related sales proceeds together with the costs of providing these items as determined by HKAS 2, should be included in profit or loss. The amendments are applied retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The application of the amendments will not have a material impact on the Company's financial statements.

- HKAS 28 (2011) and HKFRS 10 (Amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address an acknowledged inconsistency between the requirements in HKAS 28 (2011) and those in HKFRS 10, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments are to be applied prospectively and early application is permitted. The application of the amendments will not have a material impact on the Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Company in 2021 (continued)

- HKAS 37 (Amendments), "Onerous Contracts – Cost of Fulfilling a Contract". The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendments are applied to contracts for which exist at the date when the amendments are first applied, with the cumulative effect of applying the amendments to be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. The application of the amendments will not have a material impact on the Company's financial statements.

- HKFRS 3 (Amendments), "Reference to the Conceptual Framework". The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability that for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference to the Conceptual Framework. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The amendments are applied prospectively. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in HKFRS Standards, issued in June 2018. The application of the amendments will not have a material impact on the Company's financial statements.

(c) Improvements to HKFRSs

"Improvements to HKFRSs" contains a number of amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. These improvements will not have a material impact on the Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or exchange rates at the end of the reporting period for items that are re-measured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the exchange rate at the end of the reporting period are recognised directly in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on monetary securities held at fair value through profit or loss are reported as part of the fair value gain or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as fair value through other comprehensive income are included in other comprehensive income.

2.3 Impairment of investment in a subsidiary and other non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential indications of impairment may include significant adverse changes in the technological, market, economic or legal environment in which the assets operate or whether there has been a significant or prolonged decline in value below their cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Impairment of intangible assets with indefinite useful life are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities

2.4.1 Financial assets and liabilities

2.4.1.1 Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss 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 amortised cost before any impairment allowance) or to the amortised cost 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 purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Company calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

2.4.1.2 Initial recognition and measurement

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

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 24 to these financial statements, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets and liabilities (continued)

2.4.1.3 Classification and subsequent measurement

The Company has adopted HKFRS 9 and classifies its financial assets in the following measurement categories: fair value through profit or loss ("FVPL"); fair value through other comprehensive income ("FVOCI"); or amortised cost.

Classification and subsequent measurement of financial assets depend on:

(i) the Company's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Company classified its financial assets into one of the following measurement categories:

- **Amortised cost (debt instruments)**

  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 FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in note 24 to these financial statements. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

- **FVOCI (debt instruments)**

  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 FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

  Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets and liabilities (continued)

2.4.1.3 Classification and subsequent measurement (continued)

- **FVPL**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

A gain or loss on a debt investment (including the interest component) that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within "net trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "net investment income". Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

This category includes derivative instruments and equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as revenue in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets and liabilities (continued)

2.4.1.3 Classification and subsequent measurement (continued)

- **FVPL (continued)**

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Business model assessment: the Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as 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.

The SPPI test: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. In making SPPI assessment, the Company 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.

The Company reclassified debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes should be infrequent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.2 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset.

When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

2.4.3 Impairment of financial assets

The Company records the allowance for ECL for debt instruments recorded at amortised cost or at FVOCI, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss, in this section all referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime basis), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the twelve months' expected credit loss (the twelve-month basis).

The twelve-month basis is the portion of the lifetime basis that represents the ECLs that result from default events on a financial instrument that are possible within the twelve months after the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.3 Impairment of financial assets (continued)

Both lifetime basis and twelve-month basis are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company's policy for grouping financial assets measured on a collective basis is explained in note 24 to these financial statements.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained note 24 to these financial statements.

Based on the above process, the Company classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance:

- A financial asset is classified under Stage 1 if it was not credit-impaired upon origination and there has not been a significant increase in its credit risk since inception. A provision for twelve-month ECL is required.

- A financial asset is classified under Stage 2 if it was not credit-impaired upon origination but has since suffered a significant increase in credit risk. A provision for life-time ECL is required.

- A financial asset which has been credit-impaired with objective evidence of default is classified under Stage 3. The assessed ECL is expected to be unchanged from the existing individual allowances taken for such assets.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.4.4 Financial liabilities

2.4.4.1 Classification and subsequent measurement

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value. Fair value represents quoted prices if active market exists. When no active market exists, fair value is estimated by valuation techniques that are commonly used by market participants or dealer quotes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.4 Financial liabilities (continued)

2.4.4.1 Classification and subsequent measurement (continued)

Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

(iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

Financial liabilities at fair value through profit or loss, including structured notes issued embedded with certain derivatives, are designated as such at inception. Financial liabilities held for trading and those designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

Other financial liabilities

Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities (continued)

2.4.4 Financial liabilities (continued)

2.4.4.2 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.5 Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

2.6 Derivative financial instruments

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

Certain foreign exchange derivatives embedded in currency-linked deposits are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract (i.e. the underlying deposits) and the host contract is carried at amortised cost. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.7 Offsetting financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Provisions

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

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

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

2.9 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave or paternity leave are not recognised until the time of leave.

(b) Bonus plans

Provisions for bonus plans are recognised when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Company recognises a liability and an expense for bonuses, with reference to the performance of the Company. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within twelve months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within twelve months after the end of the year in which the employees render the related services are included as staff costs. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Employee benefits (continued)

(c) Pension obligations

The Company offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Company.

The Company's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2.10 Income tax

Tax expenses for the period comprise current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiary, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future.

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

Deferred tax related to fair value re-measurement of financial assets at fair value through other comprehensive income and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the realization of the deferred gain or loss.

2.11 Dividend distribution

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Interest income and fee and commission income

2.12.1 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. When the contract contains a financing component which provides the Company a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Fee and commission income is recognised on a point-in-time basis when the relevant services are rendered.

Interest income from financial assets is recognized under HKFRS 9. Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounting at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Certain foreign exchange swap contracts are used for the Company's liquidity management and funding activities. The interest rate differential between the original currency and swapped currency of these foreign exchange swap contracts is reflected in net interest income using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person:
- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

3. FINANCIAL RISK MANAGEMENT

In line with the principle of "security, liquidity and profitability", sticking to the concept of balancing "risk, capital and income", the Company operates in a legal, compliant and prudential manner, prevents systematic risks, maintains reasonable capital adequacy level and sufficient liquidity, and strives to achieve a satisfactory return to the shareholder. The Company plays overall advantages, identifies, assesses and manages risk from a global perspective, captures and seizes development opportunities, creates values through professional, effective risk management, and supports the business strategy.

The Company's activities expose it to a variety of risks: market risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic risk. The Company establishes the comprehensive risk management system suitable with the business strategy and global systematic importance statue, improves governance, prefers mechanisms, optimises operation process, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

3. FINANCIAL RISK MANAGEMENT (continued)

Risk Governance Structure

The Company establishes a comprehensive organization structure with both decision-making and control functions. The structure comprises three basic tiers: (1) the Shareholder, (2) the Board of Directors ("Board") and (3) the Senior Management as led by the Chief Executive ("CE").

Shareholder level

The Company is a wholly-owned subsidiary of BOCI Asia Limited. BOCI Asia Limited, as the sole shareholder of the Company, authorises the Board to lead the Company.

Board level

The Board is responsible for setting the fundamental strategic goals and risk vision of the Company. The Board appoints the Risk Committee ("RC") and the Audit Committee ("AC"), which assist the Board in overseeing the Company's risk management functions.

RC is a sub-committee of the Board of the Company. The general principal objective of setting up RC of the Company is for RC to provide independent oversight and guidance to the Board and senior management on risk issues, which shall include risks such as market, credit, operational, interest rate, liquidity, legal, compliance, anti-money laundering strategy and reputation risks. RC is also responsible for organizing, advising, coordinating and overseeing the risk management within the Company, according to the authorization from the Board.

AC is responsible for assisting the Board in overseeing and supervision of the risk management and internal control of the Company, the integrity of the Company's audited financial statements, the performance of Internal Audit function and also the qualifications, independence and service level of the external auditor of the Company.

Senior Management level

During the year, the Executive Committee ("EC") was composed of the CE, Alternative Chief Executive, Chief Operating Office, Chief Risk Officer, Head of Compliance, Head of Investment, Head of Finance, AML Compliance Officer and Head of Sales. After the reorganization of the composition from 24 September 2021, the EC is chaired and led by CE ("the Chairperson"), and is composed of the CE, Alternate Chief Executive, Deputy Chief Executive and Chief Risk Officer. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control and Credit Committee (the "RCCC"), Asset and Liability Committee (the "ALCO") and New Business and Product Committee (the "NBPC").

The roles, functions and compositions of these committees are disclosed in note 18 of the unaudited supplementary information.

3. FINANCIAL RISK MANAGEMENT (continued)

Senior Management level (continued)

The Risk Control and Credit Committee ("RCCC") is a sub-committee of the EC of the Company. The general objective of setting up RCCC is to organise, advise, coordinate and monitor the risk management on market, credit, interest rate, liquidity, operational and legal strategy and reputation risks of the Company, according to the authorization from the EC as well as the Board and the RC.

3.1 Market risk

The Company takes on exposure to market risk, which is the risk that the market value or fair value of a financial instrument will fluctuate because of the changes in market parameters.

The Company's exposures on market risks mainly arise from its interest rate and foreign exchange positions. These exposures are managed by the Treasury Department and monitored by the Risk Management Department (the "RMD") on a daily basis.

3.1.1 Interest rate risk

The Company takes on interest rate risk mainly from both cash flow interest rate risk and fair value 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 interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in interest rates.

The Company manages the interest rate risk with the aim to preserving capital and to ensure the steadiness and continuation of operations by:

- Maintaining an effective internal control system to identify, measure, monitor and control the extent and nature of risk on interest rate risk exposure; and
- Ensuring interest rate exposures are within internal limits.

The RMD sets limits on the level of DV01 (dollar value sensitivity of 1 basis point movement in interest rates), interest rate mismatch and duration gap to control the risks associated with parallel shifts of yield curves. Interest rate stress test limits are also approved by the Board and RC to control the adverse impact in case of extreme market conditions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Interest rate risk (continued)

The following table shows the expected repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting periods.

	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 months to 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
31 December 2021					
Cash and due from banks	681,177	-	-	452,411	1,133,588
Placements with banks	-	1,170,059	933,957	-	2,104,016
Derivative financial instruments	-	-	-	4,769	4,769
Loans and advances to customers	4,235,649	464,849	44,159	-	4,744,657
Debt instruments at fair value through other comprehensive income	-	-	-	-	-
Debt instruments at amortised cost	399,999	299,976	-	-	699,975
Financial assets included in other assets	1	3	-	11	15
Total assets	5,316,826	1,934,887	978,116	457,191	8,687,020
Deposits from customers	3,011,035	2,664,844	1,102,226	-	6,778,105
Amounts due to an intermediate holding company	-	-	-	68,010	68,010
Derivative financial instruments	-	-	-	1,918	1,918
Financial liabilities included in other liabilities	-	-	-	43,428	43,428
Total liabilities	3,011,035	2,664,844	1,102,226	113,356	6,891,461
Total interest repricing gap	2,305,791	(729,957)	(124,110)		

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Interest rate risk (continued)

	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 months to 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
31 December 2020					
Cash and due from banks	2,584,518	-	-	84,971	2,669,489
Placements with banks	-	1,397,339	-	-	1,397,339
Derivative financial instruments	-	-	-	7,217	7,217
Loans and advances to customers	4,592,250	293,508	5,706	-	4,891,464
Debt instruments at fair value through other comprehensive income	-	-	-	175	175
Debt instruments at amortised cost	299,987	49,990	-	-	349,977
Financial assets included in other assets	388	-	-	150	538
Total assets	7,477,143	1,740,837	5,706	92,513	9,316,199
Deposits from customers	5,049,106	2,305,394	182,999	-	7,537,499
Amounts due to an intermediate holding company	-	-	-	79,574	79,574
Derivative financial instruments	-	-	-	3,688	3,688
Financial liabilities included in other liabilities	-	-	-	35,993	35,993
Total liabilities	5,049,106	2,305,394	182,999	119,255	7,656,754
Total interest repricing gap	2,428,037	(564,557)	(177,293)		

Interest-bearing assets and liabilities of the Company include cash and due from banks, placements with banks, loans and advances to customers, debt instruments at amortised cost, deposits and balances from banks and deposits from customers. If the general market interest rates increase/decrease by 1%, profit before taxation for the year is estimated to increase/decrease by approximately HK$15,549,000 (2020: HK$17,899,000).

3.1.2 Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency rates fluctuations. The Company mainly enters into foreign exchange derivative transactions with its clients, BOC International Holdings Limited and its subsidiaries (the "BOCI Group") for its business needs and hedges the exposures with counterparties. The Company may also use foreign exchange derivatives to manage its own net foreign exchange positions against its functional currency, i.e. Hong Kong dollar.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Foreign exchange risk (continued)

The Company manages the foreign exchange risk with the aim to ensuring that its earnings and capital adequacy are not significantly threatened by the excessive exposure to foreign exchange risk by:

- Maintaining an effective internal control system to identify, measure, monitor and control the extent and nature of risk on both foreign exchange operation and exposure; and
- Ensuring foreign exchange exposures are within internal limits.

The RMD sets limits on individual and aggregate net open positions of various currencies to control the foreign exchange risk. Foreign exchange stress test limits are also approved by the Board and RC to control the adverse impact in case of extreme market conditions.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by currency.

	HKD HK$'000	USD HK$'000	CNY HK$'000	JPY HK$'000	Others HK$'000	Total HK$'000
31 December 2021						
Cash and due from banks	533,992	416,972	24,858	29,137	128,629	1,133,588
Placements with banks	700,017	1,403,999	-	-	-	2,104,016
Derivative financial instruments	197	745	3,371	-	456	4,769
Loans and advances to customers	2,872,321	1,719,646	-	26,397	126,293	4,744,657
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	-
Debt instruments at amortised cost	699,975	-	-	-	-	699,975
Financial assets included in other assets	15	-	-	-	-	15
Total assets	4,806,517	3,541,362	28,229	55,534	255,378	8,687,020
Deposits from customers	3,249,686	2,617,082	821,840	4,679	84,818	6,778,105
Amounts due to an intermediate holding company	68,010	-	-	-	-	68,010
Derivative financial instruments	-	783	-	484	651	1,918
Financial liabilities included in other liabilities	43,382	46	-	-	-	43,428
Total liabilities	3,361,078	2,617,911	821,840	5,163	85,469	6,891,461
Net on-balance sheet position	1,445,439	923,451	(793,611)	50,371	169,909	1,795,559
Off-balance sheet net notional position	273,064	(883,224)	802,380	(44,022)	(142,710)	5,488

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Foreign exchange risk (continued)

	HKD HK$'000	USD HK$'000	CNY HK$'000	JPY HK$'000	Others HK$'000	Total HK$'000
31 December 2020						
Cash and due from banks	2,078,203	424,939	32,541	2,579	131,227	2,669,489
Placements with banks	-	1,397,339	-	-	-	1,397,339
Derivative financial instruments	-	68	5,074	315	1,760	7,217
Loans and advances to customers	2,978,345	1,626,127	-	69,507	217,485	4,891,464
Debt instruments at fair value through other comprehensive income	175	-	-	-	-	175
Debt instruments at amortised cost	349,977	-	-	-	-	349,977
Financial assets included in other assets	150	388	-	-	-	538
Total assets	5,406,850	3,448,861	37,615	72,401	350,472	9,316,199
Deposits from customers	2,926,263	3,717,190	795,948	13,545	84,553	7,537,499
Amounts due to an intermediate holding company	78,939	635	-	-	-	79,574
Derivative financial instruments	-	3,519	147	-	22	3,688
Financial liabilities included in other liabilities	35,920	68	-	-	5	35,993
Total liabilities	3,041,122	3,721,412	796,095	13,545	84,580	7,656,754
Net on-balance sheet position	2,365,728	(272,551)	(758,480)	58,856	265,892	1,659,445
Off-balance sheet net notional position	(713,145)	238,212	771,119	(48,838)	(241,748)	5,600

At 31 December 2021, if HKD had weakened/strengthened by 1% against CNY with all other variables held constant, the profit before taxation for the year would have been approximately HK$88,000 lower/higher (2020: HK$126,000 lower/higher), mainly as a result of foreign exchange differences on translation of CNY denominated financial assets compensated by foreign exchange differences on translation of CNY denominated financial liabilities.

At 31 December 2021, if HKD had weakened/strengthened by 1% against JPY with all other variables held constant, the profit before taxation for the year would have been approximately HK$63,000 lower/higher (2020: HK$100,000 lower/higher), mainly as a result of foreign exchange differences on translation of JPY denominated financial assets compensated by foreign exchange differences on translation of JPY denominated financial liabilities.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk

Credit risk represents the loss that the Company would suffer if a client or counterparty fails to meet its contractual obligations. Credit exposures arise principally in loans and receivables, debt instruments at amortised cost, derivative financial instruments and other assets. The credit risk management and control are generally centralised in the RMD.

3.2.1 Loans and receivables

Majority of the Company's loans and receivables are loans and advances to customers.

The Company assesses credit risk of loans to corporates, individuals and financial institutions by performing credit assessment.

The credit risk management system of the Company comprises pre-trade and post-trade credit control functions.

Regarding the pre-trade credit control functions, the Company has policies and procedures in place to ensure that credits are granted to clients with creditworthiness. The Company has its own in-house assessment methodologies and credit approval process for evaluating the creditworthiness of its clients and the risks related to the specific type of credit facility.

Credit limits are set up to cap the maximum credit exposures that the Company intends to assume over specified periods. The Company's credit policy and procedure also sets out the procedures for the approval of exceptional cases when the Company may assume exposures beyond the set limits.

The Company has maintained relationships with various financial institutions and other counterparties, and has credit limits in place for these counterparties with reference to the financial strengths.

Post-trade credit control encompasses exposure and collateral monitoring and reporting. The collaterals covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a regular basis in accordance with the collateral types.

As of 31 December 2021 and 2020, there was one impaired loan which was fully provided for.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

(a) Loans and advances to customers neither overdue nor impaired

Loans and advances to customers that were neither overdue nor impaired are analysed by internal credit grades as follows:

	2021			2020		
	Pass HK$'000	Special mention HK$'000	Total HK$'000	Pass HK$'000	Special mention HK$'000	Total HK$'000
Loans and advances to customers	4,744,657	-	4,744,657	4,891,464	-	4,891,464

(b) Loans and advances to customers overdue but not impaired

There were no overdue but not impaired loans and advances to customers as at 31 December 2021 (2020: Nil).

(c) Impaired loans and advances to customers

Loans and advances to customers individually assessed to be impaired are analysed as follows:

	2021 HK$'000	2020 HK$'000
Gross impaired loans and advances to customers which have been overdue for: - over one year	1,273	1,266
Gross impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.03%	0.03%
Impairment allowances under individual assessment made in respect of such loans and advances to customers	1,273	1,266
Current market value of collateral held against the covered portion of such loans and advances to customers	-	-

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

(c) Impaired loans and advances to customers (continued)

Classified or impaired loans and advances to customers are analysed as follows:

	2021 HK$'000	2020 HK$'000
Gross classified or impaired loans and advances to customers	1,273	1,266
Gross classified or impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.03%	0.03%
Individually assessed impairment allowances made in respect of such loans and advances to customers	1,273	1,266

Classified or impaired loans and advances to customers represent loans and advances which are either classified as "substandard", "doubtful" or "loss" under the Company's classification of loan quality, or individually assessed to be impaired.

3.2.2 Derivative financial instruments

Credit risk is inherent in derivative transactions entered by the Company.

The Company assesses credit risk of derivative counterparties using external credit ratings and internal credit assessment. The Company controls the credit exposures by imposing potential market exposure limits. At any one time, the amount subject to credit risk includes (i) the current fair value of instruments that are favourable to the Company (i.e. assets where their fair values are positive) and (ii) the potential future exposures of each counterparty from market movements. The credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on credit assessment of the counterparty.

Settlement risk arises 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 to cover the aggregate settlement risk arising from the Company's market transactions on any single day.

From client credit risk perspectives, the Company assesses credit risk of individuals by performing internal credit assessment. The Company controls the credit exposures by imposing trading limits, and the credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on the derivative transactions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments

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

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the statement of financial position HK$'000	Net amounts of financial assets presented in the statement of financial position HK$'000	Related amounts not set off in the statement of financial position: Financial instruments HK$'000	Related amounts not set off in the statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
31 December 2021						
Financial assets						
Derivative financial instruments	990	-	990	(783)	-	207

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the statement of financial position HK$'000	Net amounts of financial liabilities presented in the statement of financial position HK$'000	Related amounts not set off in the statement of financial position: Financial instruments HK$'000	Related amounts not set off in the statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
31 December 2021						
Financial liabilities						
Amounts due to an intermediate holding company	68,010	-	68,010	-	-	68,010
Derivative financial instruments	783	-	783	(783)	-	-

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the statement of financial position HK$'000	Net amounts of financial assets presented in the statement of financial position HK$'000	Related amounts not set off in the statement of financial position: Financial instruments HK$'000	Related amounts not set off in the statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
31 December 2020						
Financial assets						
Derivative financial instruments	18	-	18	(18)	-	-

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the statement of financial position HK$'000	Net amounts of financial liabilities presented in the statement of financial position HK$'000	Related amounts not set off in the statement of financial position: Financial instruments HK$'000	Related amounts not set off in the statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
31 December 2020						
Financial liabilities						
Amounts due to an intermediate holding company	79,574	-	79,574	-	-	79,574
Derivative financial instruments	3,504	-	3,504	(18)	(40)	3,446

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

The Company further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial asset and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party.

The Company has an intra-group arrangement agreement with its intermediate holding company (BOC International Holdings Limited) under which the Company transfers its payment obligations or indebtedness liabilities to the intermediate holding company. The intermediate holding company is entitled to set off payments, sums and/ or liabilities owed by it to any subsidiaries against any payments, sums and/ or liabilities owed to it by any subsidiaries. During the year, no offsetting payments on intragroup transactions have been made by the Company.

The Company does not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the statement of financial position.

3.2.4 Collateral

The Company has policies and practices in place to mitigate credit risk. The most common of these is the taking of collateral.

Term loans are generally secured by various forms of collaterals such as listed stocks, bonds, funds, structured investment products, properties, insurance policies and deposits. For derivative transactions, generally the Company will require that non-investment grade financial institutions, non-financial institutions and individuals to provide collateral supporting the potential market exposure.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement

As at the end of the reporting periods, the maximum exposure to credit risk for each category of financial assets is the net carrying amount stated in the statement of financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from its loans and receivables, debt instruments at amortised cost, derivatives as well as cash and bank balances based on the following:

- Secured term loans to individuals and corporates are fully backed by various types of collaterals, such as listed stocks, bonds, funds, structured investment products, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

- Demand loan is a type of credit facility provided for our private banking clients. Demand loans are fully backed by various types of collaterals, such as listed stocks, bonds, funds, structured investment products, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

- Debt instruments at amortised cost are Hong Kong Exchange Fund Bills. Exchange Fund Bills are Hong Kong dollar debt securities issued by the HKMA. They constitute direct, unsecured, unconditional and general obligations of the Hong Kong Special Administrative Region Government. No debt instruments at amortised cost were considered to be impaired.

- The Company enters into derivative transactions with a fellow subsidiary banking group of Bank of China Limited, BOCI Group companies and other financially strong banks. There was no impairment arising from derivative counterparties as at the end of the reporting periods.

- Cash and due from banks and placements with banks were deposited in reputable large commercial banks.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 **Impairment allowances**

The Company has below financial assets that are subject to the expected credit loss model, the maximum exposure of these financial assets equal to each of their carrying amounts.

- Debt instruments at fair value through other comprehensive income
- Loan and advances to customer
- Debt instruments at amortised cost
- Financial assets included in other assets
- Cash and balances with bank
- Placements with banks

The Company assessed the ECL of the above financial assets by applying a general ('three-stage') impairment model based on changes in credit quality since initial recognition of financial assets as summarised below:

Stage 1: A loss allowance for a financial instrument should be measured at an amount equal to 12-month ECL if the credit risk on that financial instrument has not increased significantly since initial recognition.

Stage 2: A loss allowance for a financial instrument should be measured at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition.

Stage 3: Lifetime ECL are recognised on the financial instrument if the credit risk of a financial instrument increases to the point that it is considered credit-impaired.

The following diagram summaries 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

For those financial assets classified in stage 1 and 2, the Company establishes model for measuring the ECL by using a statistical approach. This approach involves estimation of four risk parameters, i.e. Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and expected life, as well as the use of effective interest rate ("EIR") and forward-looking information.

For those financial assets classified in stage 3, the Company assesses the ECL by measuring the recoverable amount for each credit-impaired asset.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Impairment allowances (continued)

Definition of default and credit-impaired assets
Default under the definition of HKFRS 9 is considered occurred when one of the following conditions is met:
- Loans or receivables which are considered uncollectible after exhausting all collection efforts, have no asset value and have already been classified as "loss";
- A debtor with difficulty in repayment applies for debt restructuring to cut the outstanding debt; and
- Loans or receivables require to be written off as specified by the local regulatory authorities.

Staging criteria
Movement between Stages 1, 2 and 3 is based on a set of predefined criteria whereas the Company has adopted a guideline to identify significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition that is consistent with the internal credit risk management strategy. The criteria included, but not limited to, the following elements:
- External/internal credit rating;
- Days past due record;
- Loan classification for loan portfolio; and
- Other credit risk events, such as margin call, force liquidation, bankruptcy.

The financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company. No significant changes to estimation techniques or assumptions were made during the reporting period.

Multiple scenarios and forward-looking information
ECL is calculated as a probability-weighted product of the PD, LGD and present value of exposure at default discounted at effective interest rate across scenarios. Three scenarios are adopted in the probability-weighted ECL which included the Baseline, Upside, and Downside scenarios which presented different severity under the respective macroeconomic scenarios.

The Company considers both historical loss experience and current observable data, and uses reasonable and supportable information of future economic forecasts to estimate the amount of ECL. The Company adopted macroeconomic forecast data for countries/regions that have material impact to the Company's business. Besides, with reference to the macroeconomic factors ("MEF") normally adopted in International Monetary Fund ("IMF") stress testing, 6 macroeconomic factors are shortlisted in the forward-looking model, namely gross domestic product ("GDP"), consumer price index ("CPI"), unemployment rate, property price index, equity price index, and interest rate. The Company adopted MEF forecasts and probability data from external vendor to ensure independence for unbiased ECL measurement.

Analysis of the gross carrying amount and recognised ECL allowance according to the stage of ECL of financial instruments for which an ECL allowance is recognised was presented in the respective notes to the financial statements.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Company is not able to fund increases in assets or meet its obligations as they fall due without incurring unacceptable losses. This may be caused by the Company's inability to liquidate assets or to obtain funding to meet its liquidity needs. The problem could also be the result of a market disruption or liquidity squeeze whereby the Company may only be able to unwind specific exposures at significantly discounted values.

The objective of liquidity risk management is to ensure the availability of adequate funding at all times, so as to meet its obligations as and when they fall due, as well as maintain a sufficient stock of high quality liquid assets to cater for a funding crisis.

Governance Structure and Management Policies

The Company has set up Liquidity Risk Management Policy (the "Policy") to govern the overall liquidity risk management with aims to ensure the availability of adequate funding at all times, so as to meet its payment obligations as and when they fall due, as well as maintain a sufficient stock of high quality liquid assets to cater for a funding crisis.

The Policy is approved by RCCC, ALCO, EC, RC and the Board ultimately. The ALCO, authorised by EC, is the governing body responsible for the implementation of risk management process to facilitate the identification, measurement, monitoring, reporting and control of liquidity risk.

Liquidity Risk Management Strategy

To manage liquidity risk, the Company performs the following strategies and approaches:

a. To maintain ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events;

b. To maintain an effective internal control system to identify, measure, monitor and control the extent and nature of liquidity risk arising from the Company's funding operations;

c. To ensure the liquidity management of the Company complies with regulatory guidelines and requirements and internal limits;

d. To establish a liquidity book (High Quality Liquid Asset ("HQLA")) for liquidity and emergency funding needs; and

e. To develop and maintain a contingency funding plan that addresses the Company's liquidity under stressed market conditions and specify actions and procedures to be implemented under liquidity stress.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

Liquidity Risk Management Framework

The liquidity risk management framework of the Company to identify, measure, monitor and control liquidity risks, that mainly includes the following aspects and approaches:

1. Liquidity Risk Tolerance

The Company adopts a series of liquidity risk management tools as a matrix to monitor and control the Company's overall liquidity risk in normal and stressed conditions. The risk limit framework includes Liquidity Maintenance Ratio ("LMR", both regulatory and internal limit), maturity mismatch ratio, loan to client deposit ratio, wholesale funding dependency ratio, FX swap to client deposit ratio, funding source concentration from intragroup companies, liquidity book (HQLA portfolio) framework, and monthly cumulative cashflow and stress test, etc. Management action trigger ("MAT") control for funding size from BOCI Securities Limited's client accounts is also set up.

The Company sets a more stringent internal limit on the LMR than the HKMA regulatory minimum liquidity requirement.

2. Liquidity Stress Testing

Monthly cashflow analysis for the Company under both normal and stressed conditions are performed in the monthly liquidity stress testing, in order to identify sources of potential liquidity strain and ensure compliance to the limit structure under different stress scenarios. Stress testing analysis for the LMR is also performed on a monthly basis, in order to analyze the potential impact to the LMR level under stress scenarios.

3. Intraday Liquidity Risk Management

The objective of intraday liquidity risk management for the Company is to ensure its payment obligations are met on a timely basis when they become due and to avoid any potential shortfall of cashflow on intraday basis and minimise the need of intraday or overnight borrowings.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

The table below analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining periods at end of the reporting periods to the contractual maturity date.

	On demand HK$'000	Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2021							
Cash and due from banks	1,133,588	-	-	-	-	-	1,133,588
Placements with banks	-	-	1,170,059	933,957	-	-	2,104,016
Derivative financial instruments	-	1,792	993	1,984	-	-	4,769
Loans and advances to customers	4,741,425	2,254	834	144	-	-	4,744,657
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	-	-
Debt instruments at amortised cost	-	399,999	299,976	-	-	-	699,975
Financial assets included in other assets	-	1	3	-	-	11	15
Total assets	5,875,013	404,046	1,471,865	936,085	-	11	8,687,020
Deposits from customers	-	3,011,035	2,664,844	1,102,226	-	-	6,778,105
Amounts due to an intermediate holding company	68,010	-	-	-	-	-	68,010
Derivative financial instruments	-	1,267	651	-	-	-	1,918
Financial liabilities included in other liabilities	1,605	3,911	-	30,534	1,855	5,523	43,428
Total liabilities	69,615	3,016,213	2,665,495	1,132,760	1,855	5,523	6,891,461
Net liquidity gap	5,805,398	(2,612,167)	(1,193,630)	(196,675)	(1,855)	(5,512)	1,795,559

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

	On demand HK$'000	Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2020							
Cash and due from banks	536,876	2,132,613	-	-	-	-	2,669,489
Placements with banks	-	-	1,397,339	-	-	-	1,397,339
Derivative financial instruments	-	788	2,683	3,746	-	-	7,217
Loans and advances to customers	4,888,866	2,248	320	30	-	-	4,891,464
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	175	175
Debt instruments at amortised cost	-	299,987	49,990	-	-	-	349,977
Financial assets included in other assets	-	388	72	67	-	11	538
Total assets	5,425,742	2,436,024	1,450,404	3,843	-	186	9,316,199
Deposits from customers	-	5,049,106	2,305,394	182,999	-	-	7,537,499
Amounts due to an intermediate holding company	79,574	-	-	-	-	-	79,574
Derivative financial instruments	-	3,688	-	-	-	-	3,688
Financial liabilities included in other liabilities	1,605	2,203	-	23,330	3,331	5,524	35,993
Total liabilities	81,179	5,054,997	2,305,394	206,329	3,331	5,524	7,656,754
Net liquidity gap	5,344,563	(2,618,973)	(854,990)	(202,486)	(3,331)	(5,338)	1,659,445

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

The table below presents the cash flows payable by the Company under non-derivative financial liabilities and derivative financial instruments that will be settled on a gross basis by remaining contractual maturities at the end of the reporting periods.

The Company's derivative financial instruments, including foreign exchange forwards, swaps, options and interest rate swaps, will be settled on a gross basis.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on the expected undiscounted cash flows.

	On demand/ Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2021						
Non-derivative cash outflow liabilities						
Deposits from customers	3,011,069	2,665,969	1,103,474	-	-	6,780,512
Amounts due to an intermediate holding company	68,010	-	-	-	-	68,010
Financial liabilities included in other liabilities	5,516	-	30,534	1,855	5,523	43,428
Total	3,084,595	2,665,969	1,134,008	1,855	5,523	6,891,950
Derivative financial instruments cash flow						
Settled on a gross basis						
Total inflow	723,463	576,403	102,025	-	-	1,401,891
Total outflow	(722,895)	(574,697)	(98,811)	-	-	(1,396,403)
	568	1,706	3,214	-	-	5,488

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

	On demand/ Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2020						
Non-derivative cash outflow liabilities						
Deposits from customers	5,049,166	2,305,977	183,919	-	-	7,539,062
Amounts due to an intermediate holding company	79,574	-	-	-	-	79,574
Financial liabilities included in other liabilities	3,808	-	23,330	3,331	5,524	35,993
Total	5,132,548	2,305,977	207,249	3,331	5,524	7,654,629
Derivative financial instruments cash flow						
Settled on a gross basis						
Total inflow	1,610,761	287,988	87,894	-	-	1,986,643
Total outflow	(1,613,540)	(284,300)	(83,203)	-	-	(1,981,043)
	(2,779)	3,688	4,691	-	-	5,600

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category

The carrying amount of each of the categories of financial instruments as at the end of the reporting period are as below:

At 31 December 2021	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets				
Cash and due from banks	-	-	1,133,588	1,133,588
Placements with banks	-	-	2,104,016	2,104,016
Derivative financial instruments	4,769	-	-	4,769
Loans and advances to customers	-	-	4,744,657	4,744,657
Debt instruments at fair value through other comprehensive income	-	-	-	-
Debt instruments at amortised cost	-	-	699,975	699,975
Financial assets included in other assets	-	-	15	15
Total financial assets	4,769	-	8,682,251	8,687,020

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities			
Deposits from customers	-	6,778,105	6,778,105
Amounts due to an intermediate holding company	-	68,010	68,010
Derivative financial instruments	1,918	-	1,918
Financial liabilities included in other liabilities	-	43,428	43,428
Total financial liabilities	1,918	6,889,543	6,891,461

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

At 31 December 2020	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets				
Cash and due from banks	-	-	2,669,489	2,669,489
Placements with banks	-	-	1,397,339	1,397,339
Derivative financial instruments	7,217	-	-	7,217
Loans and advances to customers	-	-	4,891,464	4,891,464
Debt instruments at fair value through other comprehensive income	-	175	-	175
Debt instruments at amortised cost	-	-	349,977	349,977
Financial assets included in other assets	-	-	538	538
Total financial assets	7,217	175	9,308,807	9,316,199

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities			
Deposits from customers	-	7,537,499	7,537,499
Amounts due to an intermediate holding company	-	79,574	79,574
Derivative financial instruments	3,688	-	3,688
Financial liabilities included in other liabilities	-	35,993	35,993
Total financial liabilities	3,688	7,653,066	7,656,754

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities

For financial instruments that are not measured at fair value, including debt instruments at amortised cost, loans and receivables, cash and cash equivalents, amounts due to an intermediate holding company, other assets, other liabilities, deposits from customers and deposits and balances from banks, their fair values approximate the carrying amounts.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement", described as follows, with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like bond futures.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of debt securities without active secondary markets, the over-the-counter ("OTC") derivative contracts and issued structured notes. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt instruments with significant unobservable components.

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

As at the end of the reporting periods, all debt instruments at fair value through other comprehensive income were classified as Level 2 as they are club debentures without active secondary markets. In addition, all derivative financial instruments are OTC derivative contracts and they are classified as Level 2. OTC derivative contracts include forward, swap and option contracts on foreign exchange or interest rate. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable market data, including interest rates, foreign exchange rates and volatilities.

There were no level 3 instruments during and as at the end of the reporting periods.

During 2021 and 2020, there were no transfers between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

3.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events. An operational risk management framework, approved by the RC and the Board, has been developed with the objective to ensure that operational risk is properly identified, assessed, controlled, measured, monitored and reported in a structured, systematic and consistent manner.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Operational risk (continued)

Respective business units are responsible for managing and reporting operational risks specific to their units by applying various tools such as risk and control assessment, key risk indicators and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business processes, activities and products. Risk and control assessment can help identify and assess risk within a business/ function and evaluate the effectiveness of the controls that are in place to manage these risks. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward-looking manner. Risk events, including any significant incidents that may result in different risk impacts such as customer, regulatory, legal and financial impacts to the Company, are required to be reported based on certain thresholds established. The RMD regularly evaluates the operational risk profile, records operational risk data and reports operational risk issues to the EC and the Board of the Company to ensure that a robust operational risk framework is implemented.

Each new product or service introduced is subject to a rigorous risk assessment and approval process where all relevant risks, including but not limited to operational risk are identified and assessed by departments independent of the risk-taking unit proposing the new product or service. Modification of existing products or services with significant changes in their risk portfolio is also subject to a similar risk assessment and approval process. The Company has in place operational risk mitigation programmes include business continuity management.

3.7 Capital management

The objective of the Company's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Company's overall risk profile.

The Company has established capital policy, which sets out:

- Capital management objective;
- Roles and responsibilities of various departments/ divisions in capital management;
- Internal capital target;
- Capital allocation and measurement; and
- Remedial action and procedures

The Company adopts the standardised approach (basic approach before 1 September 2014), standardised approach, basic indicator approach and solo basis to calculate its credit risk, market risk, operational risk and capital adequacy ratio respectively.

As at 31 December 2021, the capital adequacy ratio was at 44.35% (2020: 39.94%) with risk-weighted assets increased to approximately HK$4,011,368,000 (2020: HK$4,151,964,000).

The detailed information on the Company's capital management is disclosed in note 2 to note 5 to the financial statements, and note 8 to note 10 of the unaudited supplementary information.

4. NET INTEREST INCOME

	2021 HK$	2020 HK$
Interest income		
- loans and advances to customers	80,703,124	95,595,787
- due from banks and other financial institutions	25,008,651	68,062,938
- debt instruments at amortised cost	60,337	1,398,477
	105,772,112	165,057,202
Interest expense		
- deposits from customers	(7,724,060)	(53,555,769)
- deposits and balances from banks	(11,337)	(18,309)
	(7,735,397)	(53,574,078)
Net interest income	98,036,715	111,483,124

During the years ended 31 December 2021 and 2020, all interest income was calculated using the effective interest rate method.

5. NET FEE AND COMMISSION INCOME

	2021 HK$	2020 HK$
Investment services fees received from fellow subsidiaries (note 22)	273,014,605	178,988,200
Others	50,817	5,354,185
Fee and commission income	273,065,422	184,342,385
Less: fee and commission expense	(278,854)	(191,004)
Net fee and commission income	272,786,568	184,151,381

6. NET TRADING GAINS

	2021 HK$	2020 HK$
Foreign exchange	3,046,673	11,827,638

Foreign exchange net trading gains include gains and losses from spot, forward, swap and option contracts.

7. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

The directors receive no directors' emoluments from the Company. Instead the directors received emoluments from an intermediate holding company and a fellow subsidiary, which totals HK$14,509,698 (2020: HK$20,138,624), part of which is in respect of their services to the intermediate holding company and its subsidiaries. Six out of the eight directors during the year consider it impracticable to apportion this amount between their services to the Company and their services to the Company's intermediate holding company and the fellow subsidiaries. As a result, no apportionment is made for the six directors. The other two directors can practically apportion their services to the Company. The apportioned directors' emoluments amounted to HK$6,096,772 (2020: HK$11,094,429). There were no termination benefits (2020: Nil) and retirement benefits (2020: Nil) granted in 2021.

During the year, there were no loans to directors which are required to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (2020: Nil).

8. OPERATING EXPENSES

	2021 HK$	2020 HK$
Management fee paid (note 22)	102,441,610	133,032,251
Staff costs	104,711,251	94,169,101
Auditor's remuneration	337,500	402,000
Operating lease expenses recharged by intermediate holding company (note 22)	1,492,129	2,490,986
Information technology and communications expenses	9,506,017	8,603,730
Miscellaneous expenses	9,356,502	7,613,995
	227,845,009	246,312,063

9. NET CHARGE OF IMPAIRMENT ALLOWANCES

		2021			
	Notes	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Cash and due from banks	11	(44,253)	-	-	(44,253)
Placements with banks	12	120,290	-	-	120,290
Loans and advances to customers	14	(206)	-	-	(206)
Debt instruments at amortised cost	15	2,234	-	-	2,234
Debt instruments at fair value through other comprehensive income	15	(6)	-	-	(6)
Other assets	16	(7)	-	-	(7)
Net impairment charged		78,052	-	-	78,052

9. NET CHARGE OF IMPAIRMENT ALLOWANCES (continued)

	Notes	2020 Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Cash and due from banks	11	24,031	-	-	24,031
Placements with banks	12	69,858	-	-	69,858
Loans and advances to customers	14	(169)	-	-	(169)
Debt instruments at amortised cost	15	2,930	-	-	2,930
Debt instruments at fair value through other comprehensive income	15	3	-	-	3
Other assets	16	6	-	-	6
Net impairment charged		96,659	-	-	96,659

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the income statement represents:

	2021 HK$	2020 HK$
Current income tax:		
- Hong Kong profits tax	24,080,187	10,084,851
- Over-provision in prior years	(16,827)	-
- Deferred tax credit	(8,600)	(13,082)
	24,054,760	10,071,769

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong are as follows:

10. INCOME TAX EXPENSE (continued)

	2021 HK$	2020 HK$
Profit before taxation	145,946,895	61,053,421
Tax calculated at statutory tax rate at 16.5% (2020: 16.5%)	24,081,237	10,073,815
Over-provision in prior years	(16,827)	-
Income not subject to taxation	-	-
Expenses not deductible for tax	-	-
Temporary difference not recognised	(9,650)	(2,046)
Income tax expense	24,054,760	10,071,769

As at 31 December 2021, deferred tax assets of HK$61,143 have been recognised in respect of temporary differences arising from fixed assets and impairment allowances (31 December 2020: HK$52,543, 1 January 2020: HK$39,461).

11. CASH AND DUE FROM BANKS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Cash and due from banks	1,133,590,088	536,876,661	658,727,897
Placements with banks maturing less than one month	-	2,132,658,709	2,131,922,063
Less: allowance for impairment losses – Stage 1	(1,742)	(45,995)	(21,964)
	1,133,588,346	2,669,489,375	2,790,627,996

The movement in provision for impairment against cash and due from banks is as follows:

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Beginning of year - Stage 1	45,995	21,964	29,710
Net (release)/charge during the year - Stage 1	(44,253)	24,031	(7,746)
At 31 December	1,742	45,995	21,964

12. PLACEMENTS WITH BANKS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Placements with banks maturing between one and twelve months	2,104,255,031	1,397,457,425	1,682,126,900
Less: allowance for impairment losses – Stage 1	(238,901)	(118,611)	(48,753)
	2,104,016,130	1,397,338,814	1,682,078,147

The movement in provision for impairment against placements with banks is as follows:

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Beginning of year - Stage 1	118,611	48,753	114,246
Net charge/(release) during the year - Stage 1	120,290	69,858	(65,493)
At 31 December	238,901	118,611	48,753

There were no overdue or impaired bank placements as at 31 December 2021 (2020: Nil).

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses the following derivative instruments for risk management purposes (hedging) and held for trading:

Derivatives	Description
Forwards and futures	These instruments are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardised contracts transacted on regulated exchanges. The major type of forward and futures transactions undertaken by the Company is foreign exchange forward contracts.
Swaps	These are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC.
Options	Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right.

The contractual/notional amounts and fair values of derivative financial instruments held by the Company are set out in the following tables. The contractual/ notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Company's exposure to credit or market risks. The derivative financial 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 instruments assets and liabilities can fluctuate significantly from time to time.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

No hedge accounting was adopted by the Company to account for its transaction in derivatives in 2021 and 2020.

Derivative financial instruments entered by the Company are mainly for customer needs and for its own accounts. The Company offers its customers products with embedded derivatives. Such embedded derivatives, if not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss, are treated as separate derivatives and included below, as held for trading. The Company also trades derivatives, mainly foreign exchange contracts, for its own accounts to manage the foreign currency risk of the Company.

As at the end of the reporting periods, the Company has the following derivatives positions:

	Notional amount HK$'000	Fair value assets HK$	Fair value liabilities HK$
31 December 2021			
Derivatives held for trading			
- Foreign exchange forward and swap	1,401,891	4,768,569	1,917,863
		4,768,569	1,917,863
31 December 2020			
Derivatives held for trading			
- Foreign exchange forward and swap	1,963,787	7,175,844	3,647,099
- Foreign exchange options	22,856	41,005	41,005
		7,216,849	3,688,104
1 January 2020			
Derivatives held for trading			
- Foreign exchange forward and swap	2,252,850	8,914,375	4,679,626
- Foreign exchange options	64,959	356,113	356,113
		9,270,488	5,035,739

14. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Loans and advances to customers:			
- individuals	4,023,690,044	4,141,789,350	4,221,799,967
- corporates	722,241,501	750,941,487	827,782,458
	4,745,931,545	4,892,730,837	5,049,582,425
Less: allowance for impairment losses	(1,274,120)	(1,267,058)	(1,272,911)
Total	4,744,657,425	4,891,463,779	5,048,309,514

The carrying amounts of loans and advances to customers approximated their fair value. Included in the balance, there were overdue loans of HK$1,273,452 as at 31 December 2021 (2020: HK$1,266,184).

The movement in provision for impairment against loans and advances to customers is as follows:

	Stage 1 HK$	Stage 3 HK$	Total HK$
At 1 January 2020	1,043	1,271,868	1,272,911
Net release during the year	(169)	-	(169)
Exchange difference	-	(5,684)	(5,684)
At 31 December 2020 and 1 January 2021	874	1,266,184	1,267,058
Net release during the year	(206)	-	(206)
Exchange difference	-	7,268	7,268
At 31 December 2021	668	1,273,452	1,274,120

As at 31 December 2021, loans and advances to customers classified under stage 1 and stage 3 amounted to HK$4,744,658,093 and HK$1,273,452 (2020: HK$4,891,464,653 and HK$1,266,184) respectively.

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Debt instruments at fair value through other comprehensive income			
Club debentures, unlisted	-	174,994	174,997
Analysed by type of issuers as follows:			
Corporate entities, unrated	-	174,994	174,997

The movement in provision for impairment against debt instruments at fair value through other comprehensive income is as follows:

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Beginning of year – Stage 1	6	3	65
Net (release)/charge during the year – Stage 1	(6)	3	(62)
At 31 December	-	6	3

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Debt instruments at amortised cost			
Hong Kong Exchange Fund Bills, unlisted	699,992,603	349,992,303	149,623,764
Less: allowance for impairment loss – Stage 1	(18,018)	(15,784)	(12,854)
	699,974,585	349,976,519	149,610,910
Analysed by type of issuers as follows:			
Sovereigns	699,974,585	349,976,519	149,610,910
Analysed by issue specific credit rating as follows:			
Fitch, AA+ to AA-	699,974,585	349,976,519	149,610,910

The movement in debt instruments at amortised cost is summarised as follows:

	Debt instruments at amortised cost HK$
At 1 January 2020	149,610,910
Additions	1,098,970,062
Redemptions	(900,000,000)
Others	1,395,547
At 31 December 2020 and 1 January 2021	349,976,519
Additions	3,599,939,963
Redemptions	(3,250,000,000)
Others	58,103
At 31 December 2021	699,974,585

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The movement in provision for impairment against debt instruments at amortised cost is as follows:

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Beginning of year – Stage 1	15,784	12,854	13,742
Net charge/(release) during the year – Stage 1	2,234	2,930	(888)
At 31 December	18,018	15,784	12,854

There were no overdue debt instruments at fair value through other comprehensive income and debt instruments at amortised cost as at 31 December 2021 (31 December 2020: Nil, 1 January 2020: Nil).

16. OTHER ASSETS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Deposits, prepayments and other receivables	6,110,731	8,614,569	6,613,137
Less: allowance for impairment losses – Stage 1	-	(7)	(1)
	6,110,731	8,614,562	6,613,136

The movement in provision for impairment against other assets is as follows:

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Beginning of year – Stage 1	7	1	638
Net (release)/ charge during the year – Stage 1	(7)	6	(637)
At 31 December	-	7	1

17. DEPOSITS FROM CUSTOMERS

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Time and call deposits	6,778,104,894	7,526,070,495	7,953,874,951
Currency-linked deposits	-	11,428,256	4,297,736
	6,778,104,894	7,537,498,751	7,958,172,687

18. AMOUNTS DUE TO AN INTERMEDIATE HOLDING COMPANY

The amounts due to an intermediate holding company are interest free, unsecured and repayable on demand.

19. SHARE CAPITAL

	31 December 2021 HK$	31 December 2020 HK$	1 January 2020 HK$
Issued and fully paid:			
1,000,000 (31 December 2020 and 1 January 2020: 1,000,000) ordinary shares	1,000,000,000	1,000,000,000	1,000,000,000

20. KEY ELEMENTS OF THE DISCLOSURE POLICY

The Disclosure Policy of the Company sets out the approach used by the Company to (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs including its profit or loss and its financial resources (including capital/ liquidity resources) and (ii) descriptions of its own risk profile as required by the Banking (Disclosure) Rules. Further details of key elements of the Disclosure Policy will be shown in note 21 of the unaudited supplementary information.

21. CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash (used in)/generated from operating activities:

	2021 HK$	2020 HK$
Profit before taxation	145,946,895	61,053,421
Interest income from debt instruments at amortised cost	(60,337)	(1,398,477)
Net charge of impairment allowances	78,052	96,659
(Increase)/decrease in balances and placements with banks with original maturity over three months	(939,479,253)	1,148,667,021
Decrease in derivative financial instrument assets	2,448,280	2,053,639
Decrease in investment in a subsidiary	-	136
Decrease/(increase) in other assets	2,503,838	(2,001,432)
Decrease in loans and advances to customers	146,806,560	156,845,904
Decrease in deposits from customers	(759,393,857)	(420,673,936)
(Decrease)/increase in amounts due to an intermediate holding company	(11,564,124)	2,708,050
Increase in other liabilities	7,435,639	7,851,643
Decrease in derivative financial instrument liabilities	(1,770,241)	(1,347,635)
Hong Kong profits tax paid	(11,813,418)	(12,001,975)
Net cash (used in)/generated from operating activities	(1,418,861,966)	941,853,018

	2021 HK$	2020 HK$
Cash flows from operating activities included:		
-Interest received	106,394,500	186,048,975
-Interest paid	(7,829,793)	(76,503,807)

22. RELATED PARTY TRANSACTIONS

Other than related party transactions disclosed elsewhere in the financial statements, the major transactions with related parties, which the Company entered into during the year are summarised as follows:

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries

	Notes	BOC International Holdings Limited and its subsidiaries HK$	Bank of China Limited and its subsidiaries HK$
2021			
Income statement			
Interest income	i	16,152,093	8,184,345
Interest expense	ii	(6,001,139)	(214)
Fees and commission income	iii	273,014,605	-
Management fee paid	iv	(102,441,610)	-
Operating lease expenses recharged by intermediate holding company	vii	(1,492,129)	-
2020			
Income statement			
Interest income	i	12,996,017	54,493,422
Interest expense	ii	(43,901,413)	(15,417)
Fees and commission income	iii	178,988,200	3,867,456
Management fee paid	iv	(133,032,251)	-
Operating lease expenses recharged by intermediate holding company	vii	(2,490,986)	-

22. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries (continued)

	Notes	BOC International Holdings Limited and its subsidiaries HK$	Bank of China Limited and its subsidiaries HK$
2021			
Statement of financial position			
Cash and due from banks	i	-	1,119,644,429
Placements with banks	i	-	1,870,272,475
Derivative financial instruments	v	3,779,052	989,517
Deposits from customers	ii	879,762,890	2,138,124
Derivative financial instruments	v	1,134,703	783,160
2020			
Statement of financial position			
Cash and due from banks	i	-	2,022,670,713
Placements with banks	i	-	1,164,775,778
Derivative financial instruments	v	7,149,304	16,137
Deposits from customers	ii	118,917,699	2,137,910
Derivative financial instruments	v	184,043	3,463,026

(i) Interest income from bank deposits, bank balances and foreign exchange swap contracts

In the ordinary course of business, the Company placed its cash and due from banks and bank placements with Bank of China Limited and its related entities. These deposits were conducted at prices and terms that were no more favourable than those contracted with other third party customers. At 31 December 2021, cash and deposits of HK$2,990 million (2020: HK$3,187 million) were placed in Bank of China Limited and its subsidiaries.

In the ordinary course of business, the Company entered into foreign exchange swap contracts with related parties for funding purposes. These transactions were executed at the relevant market rates at the time of the transactions.

22. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries (continued)

(ii) Interest expense on deposits from customers and deposits and balances from banks

In the ordinary course of business, the Company accepted deposits and borrowing from related parties. These transactions are entered into at the relevant market rates at the time of the transactions and at prices and terms that were no more favourable than those contracted with other third party customers.

(iii) The Company received investment services fees from its fellow subsidiaries, BOCI Securities Limited and BOCI Private Wealth Management Limited, for the services provided by the Company in the capacity as an agent to introduce client businesses to the fellow subsidiaries. The Company received loan servicing fee income from an overseas branch of Bank of China Limited and the corresponding account receivable is included in other assets.

(iv) The Company has an agreement with its intermediate holding company, BOC International Holdings Limited, under which the intermediate holding company provides administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by both parties giving not less than one month's written notice. During the year, HK$90,505,000 (2020: HK$108,554,043) was paid to the intermediate holding company by the Company. In relation to the same agreement, HK$11,936,610 (2020: HK$24,478,208) was paid to BOC International Holdings Limited for key personnel and senior management services provided to the Company.

(v) In the ordinary course of business, the Company entered into exchange rate contracts with the related entities. These transactions were executed at the relevant market rates at the time of the transactions.

(vi) Directors' emoluments are disclosed in note 7 to the financial statements. Other key management compensation disclosed pursuant to CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA is included in the unaudited supplementary information.

(vii) In the ordinary course of business, the intermediate holding company, BOC International Holdings Limited, has lease agreements with Bank of China Limited and its subsidiaries. The Company was recharged for part of the operating lease rental by its intermediate holding company at the relevant market rate at the time of the transaction.

22. RELATED PARTY TRANSACTIONS (continued)

(b) Transaction with BOC Poverty Relief and Education Charity Fund Limited

BOC International Holdings Limited, an intermediate holding company, has established a charitable fund, named BOC Poverty Relief and Education Charity Fund Limited (the "Fund"), in 2008 and registered with Inland Revenue Department of Hong Kong SAR Government.

During the year and as at 31 December 2021, the Fund has not placed deposits to the Company (2020: Nil).

23. COMMITMENTS

As at 31 December 2021, the Company has no irrevocable loan commitment (2020: Nil) and no forward deposits placed (2020: Nil).

24. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

(a) Impairment allowances

In determining ECL under HKFRS 9, judgement has been applied in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and assessment of future economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The probability of default ("PD") and loss given default ("LGD") models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. Since the outbreak of COVID-19 starting early 2020, the criteria for ECL assessments and the economic conditions have been regularly updated with the considerations of the likelihood of further economic downturn and the negative impacts on the credit risk of the customers.

<u>Definition of default and credit-impaired assets</u>
Default under the definition of HKFRS 9 is considered occurred when one of the following conditions is met:

- Loans or receivables which are considered uncollectible after exhausting all collection efforts, have no asset value and have already been classified as "loss";
- A debtor with difficulty in repayment applies for debt restructuring to cut the outstanding debt; and
- Loans or receivables require to be written off as specified by the local regulatory authorities.

24. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(a) Impairment allowances (continued)

Staging criteria

Movement between Stages 1, 2 and 3 is based on a set of predefined criteria whereas the Company has adopted a guideline to identify significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition that is consistent with the internal credit risk management strategy. The criteria included, but not limited to, the following elements:

- External/internal credit rating;
- Days past due record;
- Loan classification for loan portfolio; and
- Other credit risk events, such as margin call, force liquidation, bankruptcy.

Multiple scenarios and forward-looking information

ECL is calculated as a probability-weighted product of the PD, LGD and present value of exposure at default discounted at effective interest rate across scenarios. Three scenarios are adopted in the probability-weighted ECL which included the Baseline, Upside, and Downside scenarios which presented different severity under the respective macroeconomic scenarios.

The Company considers both historical loss experience and current observable data, and uses reasonable and supportable information of future economic forecasts to estimate the amount of ECL. The Company adopted macroeconomic forecast data for countries/regions that have material impact to the Company's business, namely Hong Kong, China, United State, United Kingdom, and EU27 (27 European countries include Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden) . Besides, with reference to the macroeconomic factors ("MEF") normally adopted in International Monetary Fund ("IMF") stress testing, 6 macroeconomic factors are shortlisted in the forward-looking model, namely gross domestic product ("GDP"), consumer price index ("CPI"), unemployment rate, property price index, equity price index, and interest rate. The Company adopted MEF forecasts and probability data from external vendor to ensure independence for unbiased ECL measurement.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2021

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

1. KEY PRUDENTIAL RATIOS

		31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
	Regulatory capital (amount)	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
1	Common Equity Tier 1 (CET1)	1,736,650	1,686,800	1,672,780	1,665,767	1,613,292
2	Tier 1	1,736,650	1,686,800	1,672,780	1,665,767	1,613,292
3	Total capital	1,778,901	1,727,711	1,713,742	1,708,957	1,658,222
	RWA (amount)	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
4	Total RWA	4,011,368	3,896,490	3,877,272	4,033,373	4,151,964
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	43.29%	43.29%	43.14%	41.30%	38.86%
6	Tier 1 ratio (%)	43.29%	43.29%	43.14%	41.30%	38.86%
7	Total capital ratio (%)	44.35%	44.34%	44.20%	42.37%	39.94%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)[1]	0.448%	0.476%	0.549%	0.540%	0.555%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirement (%)	2.948%	2.976%	3.049%	3.040%	3.055%
12	CET1 available after meeting the AI's minimum capital requirements (%)	36.35%	36.34%	36.20%	34.37%	31.94%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (HK$'000)	9,676,930	8,523,434	8,996,051	9,036,748	9,295,138
14	LR (%)	17.95%	19.79%	18.59%	18.43%	17.36%

1. KEY PRUDENTIAL RATIOS (continued)

		31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	46.32%	53.51%	53.49%	48.89%	49.69%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

In accordance with the Banking (Capital) Rules effective from 1 January 2007, the Company adopts the standardised approach, standardised approach, basic indicator approach and solo basis to calculate its credit risk, market risk, operational risk and capital adequacy ratio respectively.

[1] The applicable jurisdictional countercyclical capital buffer (CCyB) ratio for Hong Kong used in the calculation of CCyB buffer requirement was 1.0% for 1Q 2020 to 4Q 2021. The reduction was in accordance with the announcements made by the Hong Kong Monetary Authority on 16 March 2020.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA")

(a) Overview of risk management

The Company identifies, assesses and manages risk from a macroeconomic perspective, as well as creates values through professional, effective risk management, and supports the business strategy. The Company's activities expose it to a variety of risks, for example: market risk, interest rate risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic risk. The Company establishes the comprehensive risk management system commensurate with the business strategy and global systematic importance statue, improves governance, optimises operation processes, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

The Company establishes a comprehensive organization structure with both decision-making and control functions, enabling the Board of Directors (the "Board") and the Senior Management (led by the Chief Executive (the "CE")) to maintain transparent, accountable, cost efficient and effective functions.

The Board is responsible for setting the fundamental strategic goals and risk vision. The Board appoints the Risk Committee (the "RC") and the Audit Committee (the "AC"), which assist the Board in overseeing the Company's risk management functions.

RC is responsible for assisting the Board in fulfilling their oversight responsibilities by providing guidance to senior management regarding the risk governance and the development of acceptable risk profile. On the other hand, AC is responsible for assisting the Board in fulfilling their oversight responsibilities by monitoring the entire risk management process. AC is also responsible for ensuring the independence of the internal and external auditors.

The Executive Committee (the "EC") was composed of the CE, Alternate Chief Executive, Chief Operating Officer, Chief Risk Officer, Head of Compliance, Head of Investment, Head of Finance, AML Compliance Officer and Head of Sales. After the reorganization of the composition from 24 September 2021, the EC is chaired and led by CE ("the Chairperson"), and is composed of the CE, Alternate Chief Executive, Deputy Chief Executive and Chief Risk Officer. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control and Credit Committee (the "RCCC"), Asset and Liability Committee (the "ALCO") and New Business and Product Committee (the "NBPC").

The Company's risk appetite defines different levels of thresholds in relation to various major risk areas the Company exposes to, including credit risk, market risk, interest rate risk, operational risk, liquidity risk, legal and compliance risk, strategic risk and reputational risk. The thresholds determine the maximum levels of risk the Company can assume before breaching the internal limits or regulatory requirements. The Board oversees the implementation of the relevant procedures and controls of the risk appetite framework. The RC oversees the Company's overall risk culture in accordance with the risk appetite statement. Regular risk appetite reports are presented to senior management. Business units perform the necessary controls in the context of the risk appetite and report any major issues under the predefined escalation requirements for further action.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(a) Overview of risk management (continued)

The Company adopts the three lines of defense approach to clearly define the roles and responsibilities of different units to safeguard the risk management system. The first line of defense consists of the business units and front-line employees, whose roles are to identify risk and apply internal controls and risk responses to ensure the business activities are subject to the Company's risk appetite and requirements.

The second line of defense is formed by Risk Management Department, Compliance and AML Compliance which are responsible for providing independent oversight of risk management activities over the first line and formulating the related policies and procedures. These independent risk monitoring functions carry out their functions by collaborating with the departmental risk coordinators, performing regular reviews and reporting updates and significant risk matters to the senior management to ensure the risks are actively and appropriately managed.

The third line of defense is formed by Internal Audit Department, who reports to the AC. It is responsible for reviewing the activities of first and second lines to ensure the function of each line is properly discharged under the risk management framework and the risk structure is carried out effectively and accurately.

The Company aims at establishing a proactive and responsive management culture, reducing business disruptions and facilitating a risk-aware culture across the Company. The Company has formulated a set of policies and guidelines for governing different types of risk in accordance with the approved risk appetite. The policies and guidelines clearly explain the risks the Company faced, and include the requirements which all relevant units have to adhere to and the proper reporting channel. These set of standards are properly documented and approved by the senior management or the Board and available to relevant staff through internal channels. Furthermore, periodic trainings in risk related aspects are provided to maintain the risk awareness of the Company.

Risk management reports are provided to senior management, RC and the Board on a regular basis. The reports cover the current position and exposures in various risk areas including portfolio analysis, credit limit usage and projection, risk exposures (primarily consist of credit risk, operational risk, market risk and liquidity risk), stress test results and significant risk events and remedial actions.

Stress test is an integral part of the Company's risk management framework. The Company develops different tools to perform the stress test in individual and integrated basis. By using sensitivity, scenario or reverse stress test methods, the tools assess the potential loss to the Company under economic downturn or adverse market movements. The Company includes a series of remedial actions and escalation procedures when the test results reach the critical level. The stress test result is considered when formulating the business strategy, defining the risk attitude and formulating the recovery plan of the Company.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(b) Overview of RWA

		RWA		Minimum capital requirements
	(HK$'000)	As at 31 December 2021	As at 30 September 2021	As at 31 December 2021
1	Credit risk for non-securitization exposures	3,356,891	3,273,853	270,404
2	Of which STC approach	3,356,891	3,273,853	270,404
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	23,161	12,354	1,853
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	23,161	12,354	1,853
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	4,825	3,113	386
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	N/A	N/A	N/A
13	CIS exposures – MBA*	N/A	N/A	N/A
14	CIS exposures – FBA*	N/A	N/A	N/A
14a	CIS exposures – combination of approaches*	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	41,188	56,288	3,295
21	Of which STM approach	41,188	56,288	3,295
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	590,725	572,638	47,258
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(b) Overview of RWA (continued)

		RWA		Minimum capital requirements
	(HK$'000)	**As at 31 December 2021**	**As at 30 September 2021**	**As at 31 December 2021**
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	5,422	8,402	331
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	5,422	8,402	331
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	**Total**	**4,011,368**	**3,909,844**	**322,762**
	N/A: Not applicable			

Items marked with asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "N/A" is reported in the rows.

During the fourth quarter in 2021, total RWAs increased by approximately HK$102 million, which was mainly due to the increase in RWAs on credit risk for non-securitization exposures attributed by the increment in corporate and bank exposures.

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

(a) Prudent valuation adjustments

The following table shows a detailed breakdown of the constituent elements of valuation adjustments for all assets measured at fair value that the Company has made under section 4A of the Banking (Capital) Rules as of 31 December 2021.

		Equity	Interest rates	FX	Credit	Commodities	**Total**	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	**Total adjustments**	-	-	-	-	-	-	-	-

The Company has established its own fair valuation policy (the "Fair Value Policy") and has undertaken independent price verification regularly to govern the valuation of the financial instruments measured at fair value. Valuation adjustments are made for assets measured at fair value either through marked to market or marked to model, including non-derivative and derivative instruments. The Company periodically reviews its Fair Value Policy to consider and assess any valuation uncertainty that shall be taken into account in the valuation process for those which are important and significant to the valuation of assets measured at fair value when compared to the market/model valuation.

The Company has currently considered the following elements of valuation adjustment in accordance with the Company's fair valuation policy:

- Credit valuation adjustment and debit valuation adjustment where applicable
- Model risk – including model specific adjustment for complex products
- Concentration – including liquidity valuation adjustment on less liquid fixed income securities

The other elements of valuation adjustment are not considered in the valuation process in the view that the risk and financial impact involved are considered to be insignificant.

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	As of 31 December 2021						
			Carrying values of items:				
(HK$)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and due from banks	1,133,588,346	1,133,588,346	1,133,588,346	-	-	-	-
Placements with banks	2,104,016,130	2,104,016,130	2,104,016,130	-	-	-	-
Derivative financial instruments	4,768,569	4,768,569	-	4,768,569	-	4,768,569	-
Loans and advances to customers	4,744,657,425	4,744,657,425	4,744,657,425	-	-	-	-
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	-	-
Debt instruments at amortised cost	699,974,585	699,974,585	699,974,585	-	-	-	-
Deferred tax assets	61,143	61,143	-	-	-	-	61,143
Other assets	6,110,731	6,110,731	6,110,731	-	-	-	-
Total assets	8,693,176,929	8,693,176,929	8,688,347,217	4,768,569	-	4,768,569	61,143
Liabilities							
Deposits from customers	6,778,104,894	6,778,104,894	-	-	-	-	6,778,104,894
Amounts due to an intermediate holding company	68,009,923	68,009,923					68,009,923
Derivative financial instruments	1,917,863	1,917,863	-	-	-	1,917,863	-
Tax payable	17,591,240	17,591,240	-	-	-	-	17,591,240
Other liabilities	43,428,211	43,428,211	-	-	-	-	43,428,211
Total liabilities	6,909,052,131	6,909,052,131	-	-	-	1,917,863	6,907,134,268

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

	As of 31 December 2020						
			Carrying values of items:				
(HK$)	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**subject to credit risk framework**	**subject to counterparty credit risk framework**	**subject to the securitization framework**	**subject to market risk framework**	**not subject to capital requirements or subject to deduction from capital**
Assets							
Cash and due from banks	2,669,489,375	2,669,489,375	2,669,489,375	-	-	-	-
Placements with banks	1,397,338,814	1,397,338,814	1,397,338,814	-	-	-	-
Derivative financial instruments	7,216,849	7,216,849	-	7,216,849	-	7,175,844	-
Loans and advances to customers	4,891,463,779	4,891,463,779	4,891,463,779	-	-	-	-
Debt instruments at fair value through other comprehensive income	174,994	174,994	174,994	-	-	-	-
Debt instruments at amortised cost	349,976,519	349,976,519	349,976,519	-	-	-	-
Deferred tax assets	52,543	52,543	-	-	-	-	52,543
Other assets	8,614,562	8,614,562	8,614,562	-	-	-	-
Total assets	9,324,327,435	9,324,327,435	9,317,058,043	7,216,849	-	7,175,844	52,543
Liabilities							
Deposits from customers	7,537,498,751	7,537,498,751	-	-	-	-	7,537,498,751
Amounts due to an intermediate holding company	79,574,047	79,574,047	-	-	-	-	79,574,047
Derivative financial instruments	3,688,104	3,688,104	-	-	-	3,647,099	-
Tax payable	5,341,298	5,341,298	-	-	-	-	5,341,298
Other liabilities	35,992,572	35,992,572	-	-	-	-	35,992,572
Total liabilities	7,662,094,772	7,662,094,772	-	-	-	3,647,099	7,658,406,668

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

The above table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. The amounts shown in the column "Carrying values under scope of regulatory consolidation" do not equal to the sum of the amounts shown in the remaining columns of the table for derivative financial instruments as it is subject to regulatory capital charges in counterparty credit risk and market risk categories.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C of the Banking (Capital) Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Banking (Capital) Rules and the Hong Kong Banking Ordinance.

(c) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		As of 31 December 2021				
			Items subject to:			
	(HK$)	**Total**	**credit risk framework**	**securitization framework**	**counterparty credit risk framework**	**market risk framework**
1	**Asset carrying value amount under scope of regulatory consolidation**	8,693,115,786	8,688,347,217	-	4,768,569	4,768,569
2	Liabilities carrying value amount under regulatory scope of consolidation	(1,917,863)	-	-	-	(1,917,863)
3	Total net amount under regulatory scope of consolidation	8,691,197,923	8,688,347,217	-	4,768,569	2,850,706
4	Off-balance sheet amounts			-		-
5	Differences due to potential future exposures	17,931,483	-	-	17,931,483	-
6	Differences due to credit risk mitigation	(2,577,966,631)	(2,587,046,652)	-	9,080,021	-
7	Differences due to consideration of provisions	259,329	259,329	-	-	-
8	**Exposure amounts considered for regulatory purposes**	6,131,422,104	6,101,559,894	-	31,780,073	2,850,706

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(c) Main sources of differences between regulatory exposure amounts and carrying values in financial statements (continued)

		As of 31 December 2020				
			Items subject to:			
	(HK$)	Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation**	9,324,274,892	9,317,058,043	-	7,216,849	7,175,844
2	Liabilities carrying value amount under regulatory scope of consolidation	(3,688,104)	-	-	-	(3,647,099)
3	Total net amount under regulatory scope of consolidation	9,320,586,788	9,317,058,043	-	7,216,849	3,528,745
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	19,752,151	-	-	19,752,151	-
6	Differences due to credit risk mitigation	(2,388,004,493)	(2,387,906,123)	-	(98,370)	-
7	Differences due to consideration of provisions	181,277	181,277	-	-	-
8	**Exposure amounts considered for regulatory purposes**	6,952,515,723	6,929,333,197	-	26,870,630	3,528,745

The key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are: (i) off-balance sheet exposures, (ii) potential future exposures for derivatives and (iii) the exposure amounts for regulatory purposes are after the adjustment for the capital effect of recognised credit risk mitigation on the principal amounts.

(d) Systems and controls of valuation estimates

Please refer to notes 3.5 and 24 to the Company's financial statements for details.

4. COMPOSITION OF CAPITAL

(a) Composition of regulatory capital

At 31 December 2021		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	736,711	(2)
3	Disclosed reserves	47,414	(3)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the Company)	-	
6	**CET1 capital before regulatory deductions**	**1,784,125**	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	61	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2021		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	47,414	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	47,414	(3)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**47,475**	
29	**CET1 capital**	**1,736,650**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2021		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the Company)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	1,736,650	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2021		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the Company)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	42,251	
51	**Tier 2 capital before regulatory deductions**	**42,251**	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2021		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**42,251**	
59	**Total regulatory capital (TC = T1 + T2)**	**1,778,901**	
60	**Total RWA**	**4,011,368**	
Capital ratios (as a percentage of RWA)			
61	**CET1 capital ratio**	**43.3**	
62	**Tier 1 capital ratio**	**43.3**	
63	**Total capital ratio**	**44.3**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**2.95%**	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.448%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	**36.4**	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2021		**Amount (In HK$'000)**	**Cross reference to balance sheet under the regulatory scope of consolidation**
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	47,673	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	42,251	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	N/A	N/A
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	N/A	N/A
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

N/A: Not applicable

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		**Amount (In HK$'000)**	**Cross reference to balance sheet under the regulatory scope of consolidation**
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	613,345	(2)
3	Disclosed reserves	48,888	(3)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory deductions**	**1,662,233**	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	53	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		**Amount (In HK$'000)**	**Cross reference to balance sheet under the regulatory scope of consolidation**
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	48,888	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	48,888	(3)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**48,941**	
29	**CET1 capital**	**1,613,292**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,613,292**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		**Amount (In HK$'000)**	**Cross reference to balance sheet under the regulatory scope of consolidation**
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	44,930	
51	**Tier 2 capital before regulatory deductions**	**44,930**	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**44,930**	
59	**Total regulatory capital (TC = T1 + T2)**	**1,658,222**	
60	**Total RWA**	**4,151,964**	
Capital ratios (as a percentage of RWA)			
61	**CET1 capital ratio**	**38.86%**	
62	**Tier 1 capital ratio**	**38.86%**	
63	**Total capital ratio**	**39.94%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.06%**	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.555%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	**31.94%**	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2020		**Amount (In HK$'000)**	**Cross reference to balance sheet under the regulatory scope of consolidation**
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	49,069	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	44,930	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	N/A	N/A
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	N/A	N/A
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

N/A: Not applicable

4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements At 31 December 2021 HK$	Under regulatory scope of consolidation At 31 December 2021 HK$	Reference
ASSETS			
Cash and due from banks	1,133,588,346	1,133,588,346	
Placements with banks	2,104,016,130	2,104,016,130	
Derivative financial instruments	4,768,569	4,768,569	
Loans and advances to customers	4,744,657,425	4,744,657,425	
Debt instruments at fair value through other comprehensive income	-	-	
Debt instruments at amortised cost	699,974,585	699,974,585	
Deferred tax assets	61,143	61,143	(4)
Other assets	6,110,731	6,110,731	
Total assets	8,693,176,929	8,693,176,929	
LIABILITIES			
Deposits from customers	6,778,104,894	6,778,104,894	
Amount due to an intermediate holding company	68,009,923	68,009,923	
Derivative financial instruments	1,917,863	1,917,863	
Tax payable	17,591,240	17,591,240	
Other liabilities	43,428,211	43,428,211	
Total liabilities	6,909,052,131	6,909,052,131	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000,000	1,000,000,000	(1)
	784,124,798	784,124,798	
Reserves			
Of which: Retained earnings (including current period profit or loss)		*736,711,205*	(2)
Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital		*47,413,593*	(3)
Total equity	1,784,124,798	1,784,124,798	
Total liabilities and equity	8,693,176,929	8,693,176,929	

4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet (continued)

	Balance sheet as in published financial statements At 31 December 2020 HK$	Under regulatory scope of consolidation At 31 December 2020 HK$	Reference
ASSETS			
Cash and due from banks	2,669,489,375	2,669,489,375	
Placements with banks	1,397,338,814	1,397,338,814	
Derivative financial instruments	7,216,849	7,216,849	
Loans and advances to customers	4,891,463,779	4,891,463,779	
Debt instruments at fair value through other comprehensive income	174,994	174,994	
Debt instruments at amortised cost	349,976,519	349,976,519	
Deferred tax assets	52,543	52,543	(4)
Other assets	8,614,562	8,614,562	
Total assets	9,324,327,435	9,324,327,435	
LIABILITIES			
Deposits from customers	7,537,498,751	7,537,498,751	
Amount due to an intermediate holding company	79,574,047	79,574,047	
Derivative financial instruments	3,688,104	3,688,104	
Tax payable	5,341,298	5,341,298	
Other liabilities	35,992,572	35,992,572	
Total liabilities	7,662,094,772	7,662,094,772	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000,000	1,000,000,000	(1)
Reserves	662,232,663	662,232,663	
Of which: Retained earnings (including current period profit or loss)		*613,344,870*	(2)
Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital		*48,887,793*	(3)
Total equity	1,662,232,663	1,662,232,663	
Total liabilities and equity	9,324,327,435	9,324,327,435	

4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments

Ordinary Shares as at 31 December 2021 and 31 December 2020

1	Issuer	Bank of China International Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	0390704D HK Equity
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules[1]	Common Equity Tier 1
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,000 million as at 31 December 2021 and 31 December 2020
9	Par value of instrument	N/A
10	Accounting classification	Share capital
11	Original date of issuance	a) 2 ordinary shares issued on 2 March 1979 b) 49,998 ordinary shares issued on 2 April 1979 c) 50,000 ordinary shares issued on 3 February 1989 d) 315,000 ordinary shares issued on 7 April 2009 e) 585,000 ordinary shares issued on 1 November 2011
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A

[1] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.
[2] Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments (continued)

Ordinary Shares as at 31 December 2021 and 31 December 2020 (continued)

	Coupons / dividends	
17	Fixed or floating dividend/coupon	Discretionary dividend amount
18	Coupon rate and any related index	The ordinary shareholders receive distributable profits that have been declared as dividend.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	The ordinary shares shall, on the return of capital in a winding-up, entitle the shareholders thereof rights of participation in any surplus profits or assets of the Company after all obligations have been satisfied.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Information relating to the disclosure of the full terms and conditions of the capital instruments issued by the Company can be viewed on the website:
http://www.bocigroup.com/PrivateBank/en/

5. MACROPRUDENTIAL SUPERVISORY MEASURES

Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

At 31 December 2021

	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect**	**RWA used in computation of CCyB ratio**	**AI-specific CCyB ratio**	**CCyB amount**
		(%)	(HK$'000)	(%)	(HK$'000)
1	Hong Kong SAR	1.000%	940,646		
2	**Sum**		940,646		
3	**Total**		**2,099,050**	**0.448%**	**17,971**

At 31 December 2020

	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect**	**RWA used in computation of CCyB ratio**	**AI-specific CCyB ratio**	**CCyB amount**
		(%)	(HK$'000)	(%)	(HK$'000)
1	Hong Kong SAR	1.000%	1,349,741		
2	**Sum**		1,349,741		
3	**Total**		**2,430,499**	**0.555%**	**23,043**

The Basel III CCyB, which is built up during periods of excess credit growth to protect against future losses, was phased-in on 1 January 2016 in Hong Kong. The Company's CCyB ratio as at 31 December 2021 was 0.448% (31 December 2020: 0.555%) as the majority of its private sector credit exposures are attributed to Hong Kong.

6. LEVERAGE RATIO

(a) Summary comparison of accounting assets against leverage ratio exposure measure

		As at 31 December 2021	**As at 31 December 2020**
	Item	**Value under the LR framework** (HK$'000 equivalent)	**Value under the LR framework** (HK$'000 equivalent)
1	Total assets as per published financial statements	8,693,177	9,324,327
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-	-
4	Adjustments for derivative contracts	27,828	19,752
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	1,003,401	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-	-
7	Other adjustments	(47,476)	(48,941)
8	**Leverage ratio exposure measure**	**9,676,930**	**9,295,138**

During 2021, the leverage ratio exposure measure increased by approximately HK$382 million, resulting in the increase of leverage ratio from 17.36% to 17.95 %. The decrease in exposure measure was mainly attributed by the decrease of bank exposures during the year.

6. LEVERAGE RATIO (continued)

(b) Leverage ratio

		HK$'000 equivalent	
		As at 31 December 2021	**As at 31 December 2020**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	8,689,880	9,318,504
2	Less: Asset amounts deducted in determining Tier 1 capital	(47,414)	(48,888)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**8,642,466**	**9,269,616**
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	6,676	7,217
5	Add-on amounts for PFE associated with all derivative contracts	25,920	19,752
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	**32,596**	**26,969**
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	1,003,401	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	**Off-balance sheet items**	1,003,401	-
Capital and total exposures			
20	**Tier 1 capital**	**1,736,650**	**1,613,292**
20a	**Total exposures before adjustments for specific and collective provisions**	**9,678,462**	**9,296,585**
20b	**Adjustments for specific and collective provisions**	**(1,532)**	**(1,447)**
21	**Total exposures after adjustments for specific and collective provisions**	**9,676,930**	**9,295,138**
Leverage ratio			
22	**Leverage ratio**	**17.95%**	**17.36%**

7. LIQUIDITY

(a) Governance of liquidity risk management

Please refer to notes 3.3 to the Company's financial statements for details.

(b) Funding strategy

The funding strategy of the Company is to maintain ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels to changes in the Company's business operations or unanticipated events.

The Company mainly relies on its client deposits and deposits made by other subsidiaries under BOC International Holdings Limited as major funding source. The Company also seeks to diversify its funding sources by establishing strong and lasting relationships with other financial institutions.

(c) Liquidity risk mitigation techniques

Please refer to notes 3.3 to the Company's financial statements for details.

(d) Liquidity stress testing

Please refer to notes 3.3 to the Company's financial statements for details.

(e) Contingency funding plan

As stated in the Liquidity Risk Management Guidelines, the Company's ability to withstand both temporary and longer-term liquidity disruptions depends on its ability to secure funding in a timely manner and at a reasonable cost. The Contingency Funding Plan ("CFP") section serves as the supplementary document to the Guidelines, which documents the key strategy, procedures, roles and responsibilities and other important matters for the Company to deal with emergency liquidity issues. The CFP is regularly updated by Risk Management Department, and is reviewed and approved by the ALCO, RCCC, EC, RC and the Board.

(f) Liquidity risk measurement tools or metrics

Liquidity Maintenance Ratio (the "LMR")
LMR is measured according to the Banking (Liquidity) Rules and the Supervisory Policy Manual issued by HKMA to monitor the overall short term liquidity risk profile of the Company. Both regulatory limit which is set up by HKMA and internal limit which is set up within the Company are monitored.

Loan to Deposit Ratio
Loan to deposit ratio is measured to monitor the overall usage of the client loan against client deposit.

Wholesale Funding Dependency Ratio
Wholesale funding dependency ratio is measured to monitor the overall reliance of wholesale funding.

FX Swap to Client Deposit Ratio
FX swap to client deposit ratio is measured to monitor the overall reliance of funding from FX swap market.

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

Funding source concentration from intra-group companies
The funding source concentration from intra-group companies limit is measured to monitor the concentration of funding from intra-group companies.

Metrics	December 2021
Liquidity Maintenance Ratio[1]	47.12%
Loan to Deposit Ratio[2]	74.14%
Wholesale Funding Dependency Ratio[2]	0.00%
FX Swap to Client Deposit Ratio	
- Local currency swap ratio (HKD)[2]	0%
- Foreign currency swap ratio (non-HKD)[2]	7.07%
Funding source concentration from intra-group companies	12.96%

[1] average as submitted to HKMA
[2] measured in monthly average

Maturity Mismatch Ratio
Maturity mismatch ratios for major currencies (including HKD, USD and CNY) are measured to monitor the 1-week and 1-month mismatch in asset and liability relative to the total liabilities.

As at 31 December 2021, the maturity mismatch ratio for major currencies are as followed:

Currency	Tenor - 1 week	Tenor - 1 month
HKD	2.82%	1.55%
USD	41.08%	65.76%
CNY	0.17%	14.77%

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

The Company's analysis of on- and off-balance sheet items by remaining maturity and the resultant liquidity gaps as of 31 December 2021 and 2020 is shown as follows:

	On demand and up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Undated/ Indefinite/ Overdue HK$'000
31 December 2021					
Cash and due from banks	1,133,588	-	-	-	-
Placements with banks	-	1,170,059	933,957	-	-
Loans and advances to customers	4,743,679	834	144	-	-
Debt instruments at fair value through other comprehensive income	-	-	-	-	-
Debt instruments at amortised cost	399,999	299,976	-	-	-
Financial assets included in other assets	1	3	-	-	11
Total on-balance sheet assets	**6,277,267**	**1,470,872**	**934,101**	**-**	**11**
Deposits from customers	3,011,035	2,664,844	1,102,226	-	-
Amounts due to an intermediate holding company	68,010	-	-	-	-
Financial liabilities included in other liabilities	5,516	-	30,534	1,855	5,523
Total on-balance sheet liabilities	**3,084,561**	**2,664,844**	**1,132,760**	**1,855**	**5,523**
Derivative financial instruments					
Off-balance sheet claims	**723,463**	**576,403**	**102,025**	**-**	**-**
Off-balance sheet obligations	**722,895**	**574,697**	**98,811**	**-**	**-**
Maturity mismatch	**3,193,274**	**(1,192,266)**	**(195,445)**	**(1,855)**	**(5,512)**
Cumulative maturity mismatch	**3,193,274**	**2,001,008**	**1,805,563**	**1,803,708**	**1,798,196**

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

	On demand and up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Undated/ Indefinite/ Overdue HK$'000
31 December 2020					
Cash and due from banks	2,669,489	-	-	-	-
Placements with banks	-	1,397,339	-	-	-
Loans and advances to customers	4,891,114	320	30	-	-
Debt instruments at fair value through other comprehensive income	-	-	-	-	175
Debt instruments at amortised cost	299,987	49,990	-	-	-
Financial assets included in other assets	388	72	67	-	11
Total on-balance sheet assets	**7,860,978**	**1,447,721**	**97**	**-**	**186**
Deposits from customers	5,049,106	2,305,394	182,999	-	-
Amounts due to an intermediate holding company	79,574	-	-	-	-
Financial liabilities included in other liabilities	3,808	-	23,330	3,331	5,524
Total on-balance sheet liabilities	**5,132,488**	**2,305,394**	**206,329**	**3,331**	**5,524**
Derivative financial instruments					
Off-balance sheet claims	**1,540,028**	**287,989**	**87,894**	**-**	**-**
Off-balance sheet obligations	**1,542,808**	**284,300**	**83,203**	**-**	**-**
Maturity mismatch	**2,725,710**	**(853,984)**	**(201,541)**	**(3,331)**	**(5,338)**
Cumulative maturity mismatch	**2,725,710**	**1,871,726**	**1,670,185**	**1,666,854**	**1,661,516**

8. CREDIT RISK

(a) General information about credit risk

Overview

Credit risk is the risk of loss as a result of the borrower or the trading counterparty being unable or unwilling to perform its obligations in a transaction. Credit risk exists in the trading book and banking book, on-balance sheet and off-balance sheet of the Company. It arises from lending business, OTC trading business and treasury business.

The Company has established policies, guidelines and procedures to identify, measure, review, manage, monitor, control and report credit risk. All credit risk related policies have been approved by the Board and subject to ongoing review in order to be in line with the regulatory guideline and statutory requirement, business strategy and risk appetite.

Credit Risk Management

Credit risk management framework and a well-defined operating structure have been established to ensure proper governance, a high level of independence and integrity. Each party in the operating structure has respective roles and responsibilities with clear reporting line defined.

The Company has in place a firm-wide risk management framework with the related standards and procedures to effectively manage credit risk. The Company's credit risk policy is established and aims to document the credit risk identification, assessment, monitoring and control of the Company's lending and trading business. A credit risk limit framework, which comprises of credit risk limit structure and credit risk limit approval hierarchy, was established.

Under the risk framework, the credit limits and credit exposures to borrowers are well-defined and monitored regularly. Following the credit limit initial application or subsequent limit change request submission received from the business division based on the business needs and capital requirement framework, the risk management division performs the independent risk assessment according to the credit approval procedures. Under the approval hierarchy, business endorsement/support and risk approvers must be obtained. The credit limits of clients are reviewed and approved on annual basis.

Furthermore, the Risk Management Department ("RMD") carries out regular risk reporting include credit risk exposures, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the credit risk.

Internal audit and external audit are appointed by the Board to constantly oversee the effectiveness of the credit risk management for the Company.

With an existence of different roles and responsibility with clear reporting structure, it provides assurance on the effectiveness of the Company's credit risk management framework.

8. CREDIT RISK (continued)

(b) Credit quality of exposures

	HK$'000	As at 31 December 2021 (a) Gross carrying amounts of: Defaulted exposures	(b) Gross carrying amounts of: Non-defaulted exposures	(c) Allowances / impairments	(d) Of which ECL accounting provisions for credit losses on STC approach exposures: Allocated in regulatory category of specific provisions	(e) Of which ECL accounting provisions for credit losses on STC approach exposures: Allocated in regulatory category of collective provisions	(f) Of which ECL accounting provisions for credit losses on IRB approach exposures	(g) Net values (a) + (b) - (c)
1	Loans	1,273	4,744,658	1,274	1,273	1	-	4,744,657
2	Debt securities	-	699,993	18	-	18	-	699,975
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	**Total**	**1,273**	**5,444,651**	**1,292**	**1,273**	**19**	**-**	**5,444,632**

	HK$'000	As at 31 December 2020 (a) Gross carrying amounts of: Defaulted exposures	(b) Gross carrying amounts of: Non-defaulted exposures	(c) Allowances / impairments	(d) Of which ECL accounting provisions for credit losses on STC approach exposures: Allocated in regulatory category of specific provisions	(e) Of which ECL accounting provisions for credit losses on STC approach exposures: Allocated in regulatory category of collective provisions	(f) Of which ECL accounting provisions for credit losses on IRB approach exposures	(g) Net values (a) + (b) - (c)
1	Loans	1,266	4,891,465	1,267	1,266	1	-	4,891,464
2	Debt securities	-	350,167	16	-	16	-	350,151
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	**Total**	**1,266**	**5,241,632**	**1,283**	**1,266**	**17**	**-**	**5,241,615**

Defaulted exposures refer to unsecured portions of claims past due for more than 90 days or repayment of fully secured principal and accrued interests being overdue for more than 12 months.

8. CREDIT RISK (continued)

(c) Changes in defaulted loans and debt securities

	(HK$'000)	**Amount**
1	**Defaulted loans and debt securities at end of the previous reporting period (31 December 2020)**	**1,266**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	7
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2021)**	**1,273**

	(HK$'000)	**Amount**
1	**Defaulted loans and debt securities at end of the previous reporting period (31 December 2019)**	**1,272**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	(6)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2020)**	**1,266**

(d) Additional disclosure related to credit quality of exposures

Under the HKMA regulatory regime, loans and advances are to be classified into five categories: Pass, Special Mention, Substandard, Doubtful and Loss.

An account is considered past due when a contractually agreed payment is not received on a date mutually agreed between the borrower and the lender.

The Company assesses at each balance sheet date whether there is any objective evidence that a loan or group of loans is impaired. A loan or a group of loans is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and the loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

8. CREDIT RISK (continued)

(d) Additional disclosure related to credit quality of exposures (continued)

The credit quality of exposures can be analysed as follows:

Geographical breakdown of exposures

	As at 31 December 2021 HK$	As at 31 December 2020 HK$
Hong Kong SAR	3,683,531,530	3,916,779,413
Macau SAR	1,870,076,062	2,664,677,991
Mainland China	1,871,806,862	1,674,274,090
Others	1,262,932,763	1,061,326,549
Total credit exposures	8,688,347,217	9,317,058,043

Concentration of exposures by industry

	As at 31 December 2021 HK$	As at 31 December 2020 HK$
Banks	3,237,604,476	4,067,215,986
Official sector	699,974,585	349,976,519
Non-bank private sector		
- Investment companies	722,241,400	750,941,352
- Individuals	4,022,416,025	4,140,661,442
- Others	6,110,731	8,262,744
Total credit exposures	8,688,347,217	9,317,058,043

Exposures by residual maturity

	As at 31 December 2021 HK$	As at 31 December 2020 HK$
Up to 1 month	6,277,266,514	7,860,977,839
Between 1-3 months	1,470,871,732	1,447,720,933
Between 3-12 months	934,101,903	96,533
Undated/ Indefinite	6,107,068	8,262,738
Total credit exposures	8,688,347,217	9,317,058,043

8. CREDIT RISK (continued)

(d) Additional disclosure related to credit quality of exposures (continued)

Impaired exposures and related allowances can be analysed as follows:

Geographical breakdown of impaired exposures and related allowances

	As at 31 December 2021 HK$	As at 31 December 2020 HK$
Hong Kong SAR	1,273,452	1,266,184
Gross impaired exposures	1,273,452	1,266,184
Less: individual impairment allowance	(1,273,452)	(1,266,184)
Net exposures	-	-

Impaired exposures and related allowances by industry

	As at 31 December 2021 HK$	As at 31 December 2020 HK$
Individual	1,273,452	1,266,184
Gross impaired exposures	1,273,452	1,266,184
Less: individual impairment allowance	(1,273,452)	(1,266,184)
Net exposures	-	-

Please refer to note 3.2.1 to the financial statements for the aging analysis of the past due exposures.

Rescheduled loans and advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule.

Please refer to supplementary financial information note 15(iv) to the financial statements for details of rescheduled exposures.

8. CREDIT RISK (continued)

(e) Qualitative disclosures related to credit risk mitigation

The credit risk management and control are generally centralised in the RMD. The Company applies prudent assessments of eligibility and quality of collateral. Marketable securities are marked-to-market in accordance with the frequency detailed in the Credit Guidelines approved by the Board. Established framework and policies are in place for close monitoring. For regulatory capital calculation, only recognised collateral stipulated by the Banking (Capital) Rules are considered as recognised credit risk mitigations and the Company follows the Banking (Capital) Rules when assessing the eligibility. Recognised collateral include financial instruments such as cash deposits. The exposure amount after mitigation is determined by applying the standard supervisory haircut required under the Banking (Capital) Rules as an adjustment to the current market value of the recognised collateral. Information about both credit and market risk concentrations within the credit risk mitigation are stated in note 3.2.5 of the Company's financial statements. On-balance and off-balance sheet recognised netting is not adopted by the Company.

(f) Overview of recognised credit risk mitigation

		As at 31 December 2021				
	(HK$'000)	**Exposures unsecured: carrying amount**	**Exposures to be secured**	**Exposures secured by recognised collateral**	**Exposures secured by recognised guarantees**	**Exposures secured by recognised credit derivative contracts**
1	Loans	943,524	3,801,134	2,587,046	-	-
2	Debt securities	699,975	-	-	-	-
3	**Total**	**1,643,499**	**3,801,134**	**2,587,046**	-	-
4	Of which defaulted	-	-	-	-	-

		As at 31 December 2020				
	(HK$'000)	**Exposures unsecured: carrying amount**	**Exposures to be secured**	**Exposures secured by recognised collateral**	**Exposures secured by recognised guarantees**	**Exposures secured by recognised credit derivative contracts**
1	Loans	1,125,900	3,765,564	2,387,906	-	-
2	Debt securities	350,151	-	-	-	-
3	**Total**	**1,476,051**	**3,765,564**	**2,387,906**	-	-
4	Of which defaulted	-	-	-	-	-

8. CREDIT RISK (continued)

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

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the External Credit Assessment Institutions ("ECAIs") that the Company has used in relation to the credit risk exposures under the following exposure classes:

- Sovereign exposures;
- Bank exposures;
- Securities firm exposures; and
- Corporate exposures.

The process it used to map ECAI issuer ratings or ECAI issue specific ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

8. CREDIT RISK (continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

		As at 31 December 2021					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**RWA (HK$'000)**	**RWA density**
1	Sovereign exposures	699,993	-	699,993	-	-	0%
2	PSE exposures	-	-	-	-	-	0%
2a	Of which: domestic PSEs	-	-	-	-	-	0%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	3,237,845		3,237,845		1,278,846	39%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	714,798		384,241		384,241	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	-	-	-	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	236,151		41,139	-	30,854	75%
11	Residential mortgage loans	123,433		123,433	-	48,041	39%
12	Other exposures which are not past due exposures	3,676,387		1,614,909	-	1,614,909	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**8,688,607**		**6,101,560**		**3,356,891**	**55%**

8. CREDIT RISK (continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach (continued)

		As at 31 December 2020					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	**On-balance sheet amount (HK\$'000)**	**Off-balance sheet amount (HK\$'000)**	**On-balance sheet amount (HK\$'000)**	**Off-balance sheet amount (HK\$'000)**	**RWA (HK\$'000)**	**RWA density**
1	Sovereign exposures	349,992	-	349,992	-	-	0%
2	PSE exposures	-	-	-	-	-	0%
2a	Of which: domestic PSEs	-	-	-	-	-	0%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	4,067,381	-	4,067,381	-	1,163,025	29%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	743,158	-	425,070	-	425,070	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	-	-	-	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	253,615	-	55,700	-	41,775	75%
11	Residential mortgage loans	146,179	-	146,179	-	56,222	38%
12	Other exposures which are not past due exposures	3,756,915	-	1,885,011	-	1,885,011	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**9,317,240**	**-**	**6,929,333**	**-**	**3,571,103**	**52%**

8. CREDIT RISK (continued)

(i) Credit risk exposures by asset classes and by risk weights – for STC approach

	(HK$'000)	As at 31 December 2021										
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	699,993	-	-	-	-	-	-	-	-	-	699,993
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,133,590	-	2,104,255	-	-	-	-	-	3,237,845
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	384,241	-	-	-	384,241
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	41,139	-	-	-	-	41,139
11	Residential mortgage loans	-	-	-	115,989	-	-	7,444	-	-	-	123,433
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1,614,909	-	-	-	1,614,909
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**699,993**	**-**	**1,133,590**	**115,989**	**2,104,255**	**41,139**	**2,006,594**	**-**	**-**	**-**	**6,101,560**

8. CREDIT RISK (continued)

(i) Credit risk exposures by asset classes and by risk weights – for STC approach (continued)

	(HK$'000)	As at 31 December 2020										
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	349,992	-	-	-	-	-	-	-	-	-	349,992
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,902,217	-	1,165,164	-	-	-	-	-	4,067,381
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	425,070	-	-	-	425,070
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	55,700	-	-	-	-	55,700
11	Residential mortgage loans	-	-	-	138,395	-	-	7,784	-	-	-	146,179
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1,885,011	-	-	-	1,885,011
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**349,992**	**-**	**2,902,217**	**138,395**	**1,165,164**	**55,700**	**2,317,865**	**-**	**-**	**-**	**6,929,333**

9. COUNTERPARTY CREDIT RISK ("CCR")

(a) Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Counterparty credit risk comprises pre-settlement risk and settlement risk arising from derivative or securities financing transactions. The pre-settlement risk is the risk of loss due to counterparty defaults or counterparty credit deterioration before the settlement date. Settlement risk is the risk of failed settlement that the counterparty fails to deliver the terms on a contract at the settlement date.

The Company has in place a firm-wide risk management framework with the related standards and procedures to effectively manage the counterparty credit risk. The standard "Counterparty Credit Risk Management Guideline" ("CCR Guideline") is established and aims to document the credit risk identification, assessment, monitoring and control of the Company's trading and treasury activities with external and intragroup counterparties. The CCR Guideline is formulated with consideration of regulatory requirements and rules and approved by the RC.

Under the risk framework, the credit limits and credit exposures to counterparties are well-defined and monitored regularly. The counterparty credit risk exposures are measured under Standardized Approach of Counterparty Credit Risk (SA-CCR) method and peak settlement approach according to different types of risk and presented in both individual counterparty level and group of related counterparty level. A formal credit limit setting and approval procedure is set forth to govern the counterparty credit risk. Following the credit limit initial application or subsequent limit change request submission received from the business division based on the business needs and capital requirement framework, the RMD performs the independent risk assessment according to the credit approval procedures. Under the approval hierarch, business endorsement/support and risk approvers must be obtained. The credit limits of counterparties are reviewed and approved on an annual basis.

Furthermore, the RMD carries out regular risk reporting include credit risk exposures, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the counterparty credit risk.

The Company's risk framework defines the collateral requirements to mitigate the counterparty risk. In principle, ISDA master agreement must be executed in advance for over-the-counter ("OTC") derivatives trading, with effective close-out netting enforceability.

General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors. Specific wrong-way risk arises when the exposure to counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transaction with the counterparty. The Company sets up the controls in various areas including the collateral requirements and stress testing to manage and assess the potential impact of the risk.

While the Company has no credit rating, in the event of credit downgrade by its parent company (say, 3-notch downgrade), the impact on the Company's collateral obligations under derivative contracts is minimal.

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(b) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		As at 31 December 2021					
		Replacement cost (RC) (HK$'000)	**PFE (HK$'000)**	**Effective EPE (HK$'000)**	**Alpha (α) used for computing default risk exposure**	**Default risk exposure after CRM (HK$'000)**	**RWA (HK$'000)**
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	4,769	17,931		N/A	31,780	23,161
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**23,161**

		As at 31 December 2020					
		Replacement cost (RC) (HK$'000)	**PFE (HK$'000)**	**Effective EPE (HK$'000)**	**Alpha (α) used for computing default risk exposure**	**Default risk exposure after CRM (HK$'000)**	**RWA (HK$'000)**
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	7,217	19,752		N/A	26,871	23,300
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**23,300**

The current exposure method is used for calculating default risk exposures of derivative contracts.

(c) CVA capital charge

	(HK$'000)	As at 31 December 2021		As at 31 December 2020	
		EAD post CRM	**RWA**	**EAD post CRM**	**RWA**
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	31,780	4,825	26,871	4,150
4	**Total**	**31,780**	**4,825**	**26,871**	**4,150**

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	(HK$'000)	As at 31 December 2021										
	Exposure class / **Risk Weight**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total default risk exposure after CRM**
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	10,774	-	-	-	-	-	-	-	10,774
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	21,006	-	-	-	21,006
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**10,774**	**-**	**-**	**-**	**21,006**	**-**	**-**	**-**	**31,780**

During 2021, total default risk exposure after CRM decreased by approximately HK$5 million, which was attributed by the decrement in bank exposures.

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach (continued)

	(HK$'000)	As at 31 December 2020										
	Exposure class / **Risk Weight**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total default risk exposure after CRM**
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	4,393	-	-	-	-	-	-	-	4,393
5	Securities firm exposures	-	-	-	-	114	-	-	-	-	-	114
6	Corporate exposures	-	-	-	-	-	-	22,196	-	-	-	22,196
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	168	-	-	-	168
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**4,393**	**-**	**114**	**-**	**22,364**	**-**	**-**	**-**	**26,871**

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(e) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	As at 31 December 2021					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
(HK$'000)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Total	-	-	-	-	-	-

	As at 31 December 2020					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
(HK$'000)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	7,610	-	388	-	-
Total	-	7,610	-	388	-	-

10. MARKET RISK

(a) Qualitative disclosures related to market risk

The Company has formulated market risk management policy to identify, measure, control and report the market risk exposures and information. The Company has also defined its market risk appetite in accordance with the Company's business strategies and objectives. Please refer to note 3.1 "Market Risk" to the financial statement for details.

The Company has established risk governance management framework to manage market risk. Please refer to the "Risk Governance Structure" section in note 3 to the financial statements for details.

For measuring and monitoring market risk, the analysis is carried out on different dimensions (e.g. by risk factors, by currencies and by tenors) and results in the potential loss or sensitivity impact. The market risk limits are set with reference to the risk appetite, business model and usage. To facilitate the measurement and analysis of market risk, multiple systems such as the Company's treasury system and market risk system are employed. For the reporting of market risk, it is compiled and monitored on a daily basis. Besides, management reports are compiled and reported for different level of governance on a regular basis.

10. MARKET RISK (continued)

(b) Market risk under Standardized approach

	(HK$'000)	**As at 31 December 2021** RWA	**As at 31 December 2020** RWA
	Outright product exposures		
1	Interest rate exposures (general and specific risk)	-	-
2	Equity exposures (general and specific risk)	-	-
3	Foreign exchange (including gold) exposures	41,188	40,150
4	Commodity exposures	-	-
	Option exposures		
5	Simplified approach	-	-
6	Delta-plus approach	-	-
7	Other approach	-	-
8	Securitization exposures	-	-
9	**Total**	**41,188**	**40,150**

During 2021, total market risk RWA increased by approximately HK$1 million, which was mainly attributed by the increase in foreign exchange exposures from net open positions in foreign currencies.

11. INTEREST RATE RISK IN BANKING BOOK

(a) Interest rate risk in banking book – risk management objectives and policies

Interest Rate Risk in the Banking book ("IRRBB") refers to the risk to the Company's overall earnings and economic value due to adverse movements in interest rates or changes to the balance sheet structure. IRRBB arises from the Company's core business activities, such as providing loans and taking deposits, or treasury business that have differing repricing maturities and interest rates, which expose the Company's capital and earnings to risk when there are changes in the interest rate environment.

Governance structure and management policies

The Company has set up the Interest Rate Risk in the Banking Book Management Policy (the "Policy") to effectively manage its IRRBB by establishing and implementing a conceptually sound management system according to the risk appetite as set out by the Board. The Policy is established in accordance with the Supervisory Policy Manual on Interest Rate Risk in the Banking Book ("IR-1") issued by the HKMA.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(a) Interest rate risk in banking book – risk management objectives and policies (continued)

Governance structure and management policies (continued)

The Policy is approved by ALCO, RCCC, EC, RC and the Board ultimately. The ALCO, authorised by EC, is the governing body responsible for the implementation of risk management process to facilitate the identification, assessment, measurement, monitoring, reporting and controlling on interest rate risk in a comprehensive and consistent manner. Various limits and Management Alert Trigger ("MAT") levels are set to control and monitor the Interest Rates risk. The measurement of IRRBB outcomes are based on the earnings-based measures and economic value measures. For earnings-based measures, the focus for analysis is the impact of changes in interest rates on future accrued or reported earnings. The change in Net Interest Income ("ΔNII"), therefore the change of the difference between total interest income and total interest expense directly link to changes in interest rates.

For economic value measures, the focus on measuring the level of change to the net present value of the relevant balance sheet items, based on existing or adjusted cash flows that are revalued in line with the interest rate shock and stress scenarios. The change in the valuation is a measure of the level of IRRBB, and can be compared with the current value of equity to determine the change to the economic value of equity ("EVE").

Overall IRRBB and mitigation strategies

The overview of risk management is described under supplementary note 2 (a) of the Company's financial statements. For the role and practices of the ALCO, please refer to supplementary note 18 (g) of the Company's financial statements.

For the nature of the risk, please refer to note 3.1.1 of the Company's financial statements for details.

RMD is responsible for monitoring of EVE and net interest income ("NII") and the compliance against the approved IRRBB limits by the RC and the Board, on a monthly basis. Risk limits and MAT are established for ongoing monitoring of impact to EVE and NII resulting from future interest rate movement.

Stress testing analysis on IRRBB is conducted on a monthly basis to measure the vulnerability to loss arising from interest rate movement, in order to analyze the potential impact to the capital positions. The Company considers the stress results when establishing and reviewing the IRRBB Policy and risk limits. Currently, the Company adopts the six standardised interest rate shock scenarios and two parallel shock scenarios set out in IR-1 to estimate changes in economic value and earnings respectively.

RMD regularly reviews and updates these risk limits with regards to the business and market conditions.

Furthermore, RMD carries out periodic risk reporting include interest rate risk, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the interest rate risk.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(a) Interest rate risk in banking book – risk management objectives and policies (continued)

Overall IRRBB and mitigation strategies (continued)

The Company adopts a prudent measure to monitor, control and manage the interest rate risk in the banking book within the Company's risk appetite and internal limits. Whenever necessary and for the sake of reducing the interest rate risk exposure, the Company may use the interest rate derivatives instruments, which include but not limited to Forward Rate Agreement, Interest Rate Swap and/or Cross Currency Swap, to hedge the risk to an acceptable level.

Hedge accounting treatment under Hong Kong Financial Reporting Standard would be considered to apply to avoid fluctuation of profit and loss arising from mark-to-market of the hedging derivatives.

Key modeling and parametric assumptions in measuring the changes in EVE and NII disclosed in (b)

1. Treatment of commercial margin and other spread components used in the measurement of the changes in EVE

   In computing the impact on EVE, the cash flows including commercial margins and spread components are discounted with a risk-free rate curve composite of interbank offering rates and swap rats on currency-basis.

2. Methodology used to estimate the early withdrawal rates for time deposits

   The early withdrawal rate modelling on term deposits has been used to forecast early redemption rates on retail fixed rate term deposits. The methodology used to determine withdrawal rates of the term deposits undergoes a model fitting process between various parametric time series models and mean model.

3. Other assumptions

   a. Interbank borrowing and lending are not considered as having embedded early termination option. Based on the market practice, early termination of loans and deposits are not allowed.

   b. Currency linked deposits (CLD) are not considered as having any options under banking book.

      i. For underlying option, Product Marketing performs client facilitation to back-to-back hedge the option to external parties without taking positions, which are considered as trading book.
      ii. Due to the difficulties in unwinding the underlying option, no early termination is allowed on the deposit side.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(a) Interest rate risk in banking book – risk management objectives and policies (continued)

Key modeling and parametric assumptions in measuring the changes in EVE and NII disclosed in (b) (continued)

4. Methods of aggregation across currencies and any significant interest rate correlations between different currencies

   The method of aggregation for impact on EVE follows the exact formula provided by HKMA which only positive impact on EVE are taken during aggregation. While for impact on NII, the exposures are directly netted over currencies.

   The Company does not offer any non-maturity deposits.

   Other than the key assumptions detailed above, no other assumptions have been made in deriving the changes in EVE and NII disclosed in (b) below.

(b) Interest rate risk exposures in banking book

The following table displays the changes in economic value of equity and net interest income under each of the prescribed interest rate shock scenarios in respect of the Company's interest rate risk exposures arising from the banking book positions as at 31 December 2021 and 2020.

	(In HK$ million)	(a)	(b)	(c)	(d)
		ΔEVE		**ΔNII**	
	Period	**As of 31 December 2021**	**As of 31 December 2020**	**As of 31 December 2021**	**As of 31 December 2020**
1	Parallel up	11	8	(39)	(36)
2	Parallel down	1	2	39	36
3	Steepener	1	2		
4	Flattener	10	9		
5	Short rate up	13	11		
6	Short rate down	1	2		
7	**Maximum**	13	11	39	36
	Period	**As of 31 December 2021**		**As of 31 December 2019**	
8	**Tier 1 capital**	1,737		1,613	

12. OPERATIONAL RISK

Please refer to note 3.6 "Operational Risk" to the Company's financial statements for details.

13. REMUNERATION

(a) Remuneration policy

The Company adopts the remuneration practices following the remuneration principles of BOC International Holdings Limited ("BOCI Group") and established its own remuneration policy to provide general guidance on the governance and control arrangements for and operations of, the remuneration system of its employees. The remuneration matters have been disclosed according to the guideline in Part 3 of the Supervisory Policy Manual module CG5, namely "Guideline on a Sound Remuneration System" issued by the HKMA.

The objective of the remuneration system is to define a reward framework that can attract, retain, and motivate employees, and create incentives for delivering sustainable performance.

The Company may appoint external consultant to provide advice on market practice and to make improvement on governance and remuneration policy. In 2021, the Company has not requested to seek advice from external consultant on matters relating to remuneration.

(i) Governance

The NRC assists the Board in identifying and nominating candidates as directors and senior management of the Company for appointment for the approval of the Board as well as in its overseeing the formulation and implementation of the Company's remuneration policy. NRC involves in the process of design and implementation of nomination and remuneration policy and plays a continuing role in the operation of the nomination and remuneration system:

- To establish the Selection, Appointment and Succession Policy of the Board of Directors;
- To establish the annual self-evaluation mechanism for the Board and its sub committees;
- To establish the Succession Policy for Key Positions to provide continuity in leadership and avoid extended vacancies in key positions;
- To ensure to have an orderly selection, appointment and succession on the Director and Key Position as set out in the policies;
- To undertake regular assessments of the effectiveness of the Board and its sub committees as well as the contribution made by each individual director to the effectiveness of the Board;
- To establish human resources and remuneration strategies, plans and policies;
- To supervise the execution and evaluate the effectiveness of human resources and remuneration policies which is consistent with the regulatory guideline and any other legal or regulatory requirements;
- To establish a professional and match-with-market human resources management system and incentive scheme and control mechanism; and
- To improve, enhance and ensure the competitiveness and quality of human capital.

13. REMUNERATION (continued)

(a) Remuneration policy (continued)

(i) Governance (continued)

The remuneration policy introduced the establishment and functions of the NRC for the Company. The risk factors and measures are also described in the policy in order to promote effective risk management between risk and reward and provide long-term interests of the Company, and maintain financial soundness for the Company. The NRC meets at least once a year. During the year, the NRC held four meetings and passed seven written solutions. The remuneration policy has been reviewed and endorsed by the NRC and some minor amendments were made according to the latest version of Supervisory Manual module CG5 issued by HKMA on 29th July 2021, mainly including:

- Updating the definition of "senior management". "key personnel", "key group of personnel" and "risk control personnel" and specified the job roles to be included in each employee category;
- Detailing the consideration of misconduct risk in the remuneration system and providing indicative scenarios that would result in reduction in variable remuneration;
- Revising the proportion of discretionary bonus to defer for different employee categories. The proportions are substantially higher for "senior management" and "key personnel"

The policies and regulations set out in the remuneration policy are applicable to all employees in the Company. Some of them are further categorized in 4 groups with specific regard to their remuneration, given that they might have a material impact on the Company's risk profile and financial soundness: i) senior management responsible for the oversight of the Company's firm-wide strategy, activities or material business lines; ii) key personnel with duties or activities in the course of their employment which involve the assumption of material risk or the taking on of material exposures on behalf of the Company; iii) groups of employees whose duties in aggregate may expose the Company to material amounts of risk on behalf of the Company and who are subject to the same or similar incentives arrangements; and iv) employees within the risk control functions who have responsibilities to monitor and report risk of the Company.

(ii) Remuneration structures

The employees' total remuneration consists of fixed pay (e.g. salary and allowances) and variable remuneration (e.g. discretionary bonus). It is determined on the basis of their roles and responsibilities, performance, contributions, and market dynamics. All fixed and variable remuneration are in cash form.

It differentiates the variable/ fixed remuneration ratios across employees based on performance, seniority, and their functions. This helps to ensure that employee incentives remain focused on prudent risk taking and/ or effective control, depending on the employee's role.

The Company will reward employees by directly linking compensation to performance based on their annual objective setting and annual performance evaluation, taking account of the overall performance of the Company as a whole over the longer term; performance of the relevant business units; contribution of individual employees to the above performance; and the outlook of BOCI Group.

13. REMUNERATION (continued)

(a) Remuneration policy (continued)

(ii) Remuneration structures (continued)

The Company implements an annual objective setting process as an instrument for employee's performance measurement. The performance evaluation process is a means for performance measure, which consists of the financial and non-financial factors as a basis for assessing the employee's performance during the annual performance evaluation.

The total variable remuneration pool for the whole BOCI Group is expressed as a percentage of profit, adjusted for total fixed remuneration cost and various discretionary factors. After the variable remuneration pool has been endorsed by the Board of BOCI Group, the management works with Human Resources Function to allocate it across business units based on their financial and non-financial performance, the quantum and nature of the risk exposures and the market conditions, which comprises metrics related to shareholder, client and employee performance, and the realisation of medium to long-term strategic objectives. The business units' heads follow a similar approach when allocating the bonus to teams/individuals.

The variable remuneration of employees eligible to the deferred plan is paid on deferral rates ranging from 20% to 50% (depending on the employee categories and variable remuneration amount as stipulated in deferral rate table of the Remuneration Policy of the Company) up to 3 years. Deferral of the payment of a portion of the variable remuneration will allow employees' performance, including the associated risks, to be observed and validated over a period of time before payment is actually made. The adjustment of the amount to be paid will enable the remuneration ultimately received by the employees to more accurately reflect the time horizon of risks and risk outcomes.

The award of variable remuneration and its amount will be made at the Company's sole discretion. If the payment is not justified by the performance of the Company or the business objectives are not achieved over the assessment period or when it is necessary to protect the financial soundness of the Company or it is under unexpected special circumstances, all or part of the variable remuneration may be withheld or deferred by the Company.

Remuneration of the risk control personnel shall be determined in accordance with their performance objectives and commensurate with their key role in the Company, and will be compensated independent of the performance of the business areas that they oversee.

Aggregate quantitative information on the remuneration for the Company's senior management and key personnel is set out below. Their remunerations are paid by BOCI Group companies. An apportionment has been made as the management considers that it is practicable to apportion this amount between their services to the Company and their services to BOCI Group companies. This was reviewed and approved in the regular meetings held by the NRC overseeing remuneration during the financial year. The Company followed the remuneration policy of holding a regular meeting (at least annually) to review the Company's remuneration system. The apportionment is recharged through management fee to the Company.

13. REMUNERATION (continued)

(b) Remuneration awarded during the financial year

	(HK$)		**2021**	
	Remuneration amount and quantitative information		**Senior management**	**Key personnel**
1	Fixed remuneration	Number of employees	9	3
2		Total fixed remuneration	7,308,443	5,162,232
3		Of which: cash-based	7,308,443	5,162,232
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	9	3
10		Total variable remuneration	5,053,049	3,295,436
11		Of which: cash-based	5,053,049	3,295,436
12		Of which: deferred	2,021,220	1,318,175
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**12,361,492**	**8,457,668**

	(HK$)		**2020**	
	Remuneration amount and quantitative information		**Senior management**	**Key personnel**
1	Fixed remuneration	Number of employees	10	6
2		Total fixed remuneration	16,199,302	3,723,794
3		Of which: cash-based	16,199,302	3,723,794
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	10	6
10		Total variable remuneration	8,570,140	2,236,490
11		Of which: cash-based	8,570,140	2,236,490
12		Of which: deferred	3,428,057	894,596
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**24,769,442**	**5,960,284**

13. REMUNERATION (continued)

(c) Special payments

	(HK$)	**2021**					
	Special payments	**Guaranteed bonuses**		**Sign-on awards**		**Severance payments**	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

	(HK$)	**2020**					
	Special payments	**Guaranteed bonuses**		**Sign-on awards**		**Severance payments**	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

There is no severance payment awarded and actually made to Senior Management and Key Personnel during 2021 (2020: Nil).

(d) Deferred remuneration

	(HK$)	**2021**				
	Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management					
2	Cash	1,885,472	-	-	-	6,209,253
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	587,539	-	-	-	3,655,979
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**2,473,011**	**-**	**-**	**-**	**9,865,232**

13. REMUNERATION (continued)

(d) Deferred remuneration (continued)

	(HK$)	2020				
	Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management					
2	Cash	1,877,233	-	-	-	12,716,835
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	392,816	-	-	-	1,886,281
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**2,270,049**	**-**	**-**	**-**	**14,603,116**

There is no amount of deferred remuneration reduced through performance adjustments for Senior Management and Key Personnel during 2021 (2020: Nil).

There is no amount of reductions due to ex post explicit adjustments and/or due to ex post implicit adjustments for Senior Management and Key Personnel during 2021 (2020: Nil).

14. SEGMENTAL INFORMATION

(i) Segmental information by geographical area

All income, profit or loss, assets, liabilities and off-balance sheet items of the Company are derived from Hong Kong.

(ii) Segmental information by class of business

The main business segment of the Company is as follows:

Private banking	Provides a range of services for high net-worth individual clients and corporate clients

The Company's business segment results for 2021 and 2020 are as follows:

	2021 Private banking HK$'000	2020 Private banking HK$'000
Net interest income	98,037	111,483
Net fee and commission income	272,786	184,151
Net trading gains	3,047	11,828
Operating income	373,870	307,462
Operating expenses	(227,845)	(246,312)
Profit before impairment allowances	146,025	61,150
Net (charge)/release of impairment allowances	(78)	(97)
Profit before taxation	145,947	61,053
Segment assets	8,693,177	9,324,327
Segment liabilities	6,909,052	7,662,095

15. LOANS AND ADVANCES TO CUSTOMERS

(i) Loans and advances to customers by industry sectors

At 31 December 2021	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	%	HK$'000	HK$'000	HK$'000	HK$'000
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	4,023,690	100%	1,273	1,273	1	1,273
Financial concerns						
- Investment companies	722,242	100%	-	-	-	-
	4,745,932					
Loans for use outside Hong Kong	-	-				
	4,745,932					

At 31 December 2020	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	%	HK$'000	HK$'000	HK$'000	HK$'000
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	4,141,790	100%	1,266	1,266	1	1,266
Financial concerns						
- Investment companies	750,941	100%	-	-	-	-
	4,892,731					
Loans for use outside Hong Kong	-	-				
	4,892,731					

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Loans and advances to customers by geographical areas

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor. Only regions constituting 10% or more of the aggregate gross advances to customers are separately disclosed.

At 31 December 2021	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	2,030,943	1,273	1,273	1	1,273
Mainland China	2,133,569	-	-	-	-
Others	581,420	-	-	-	-
	4,745,932	1,273	1,273	1	1,273

At 31 December 2020	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	2,524,596	1,266	1,266	1	1,266
Mainland China	1,929,566	-	-	-	-
Others	438,569	-	-	-	-
	4,892,731	1,266	1,266	1	1,266

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(iii) Non-bank mainland exposures

Below is a breakdown of the Company's mainland exposures to non-bank counterparties. The below figures are disclosed in accordance with the return relating to Mainland Activities submitted to the HKMA.

Type of counterparties	On-balance sheet exposures HK$'000	Off-balance sheet exposures HK$'000	Total exposures HK$'000
At 31 December 2021			
Central government, central government-owned entities and their subsidiaries and joint ventures	-	3,779	3,779
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,670,877	-	1,670,877
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	201,090	-	201,090
	1,871,967	3,779	1,875,746
Total assets after provision	8,693,177		
On-balance sheet exposures as percentage of total assets	21.53%		

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(iii) Non-bank mainland exposures (continued)

Type of counterparties	On-balance sheet exposures HK$'000	Off-balance sheet exposures HK$'000	Total exposures HK$'000
At 31 December 2020			
Central government, central government-owned entities and their subsidiaries and joint ventures	-	7,149	7,149
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,476,528	9	1,476,537
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	152,301	-	152,301
	1,628,829	7,158	1,635,987
Total assets after provision	9,324,327		
On-balance sheet exposures as percentage of total assets	17.47%		

(iv) Rescheduled assets

There were no rescheduled loans and advances to customers, banks and other financial institutions and rescheduled debt securities as at 31 December 2021 (2020: Nil).

(v) Repossessed assets

There were no repossessed assets as at 31 December 2021 (2020: Nil).

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2021

16. CURRENCY CONCENTRATIONS

	USD HK$'000	CNY HK$'000	JPY HK$'000	CAD HK$'000	CHF HK$'000	SGD HK$'000	NZD HK$'000	EUR HK$'000	GBP HK$'000	Others HK$'000	Total HK$'000
2021											
Spot assets	3,547,394	24,858	55,534	11,187	12,311	7,056	2,661	179,699	17,987	24,026	3,882,713
Spot liabilities	(2,619,427)	(821,839)	(4,678)	(6,747)	-	(26,583)	-	(208)	(21,081)	(30,201)	(3,530,764)
Forward purchases	256,585	802,379	10,159	6,123	-	23,095	-	13,232	11,589	5,664	1,128,826
Forward sales	(1,139,809)	-	(54,181)	-	(7,680)	-	-	(185,252)	(9,481)	-	(1,396,403)
Net long/(short) position	44,743	5,398	6,834	10,563	4,631	3,568	2,661	7,471	(986)	(511)	84,372

16. CURRENCY CONCENTRATIONS (continued)

	CNY HK$'000	Others HK$'000	Total HK$'000
2020			
Spot assets	32,541	3,877,873	3,910,414
Spot liabilities	(795,948)	(3,818,145)	(4,614,093)
Forward purchases	778,264	1,175,317	1,953,581
Forward sales	(7,145)	(1,227,691)	(1,234,836)
Net long/(short) position	7,712	7,354	15,066

There were no net structural positions as at 31 December 2021 and 31 December 2020.

17. INTERNATIONAL CLAIMS

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

Analysis of cross-border claims by location and type of counterparty is as follows:

			Non-bank private sector		
	Banks HK$ million	Official sector HK$ million	Non-bank financial institutions HK$ million	Non-financial private sector HK$ million	Total HK$ million
At 31 December 2021					
Developed countries	313	-	86	58	457
Offshore centres	291	-	29	592	912
Developing Latin America and Caribbean	-	-	-	7	7
Developing Africa and Middle East	-	-	-	48	48
Developing Asia and Pacific	2,118	-	16	2,600	4,734
Of which: China	*2,118*	-	*16*	*2,517*	*4,651*
	2,722	-	131	3,305	6,158

17. INTERNATIONAL CLAIMS (continued)

	Banks HK$ million	Official sector HK$ million	Non-bank private sector: Non-bank financial institutions HK$ million	Non-bank private sector: Non-financial private sector HK$ million	Total HK$ million
At 31 December 2020					
Developed countries	274	-	194	301	769
Offshore centres	174	-	6	210	390
Developing Latin America and Caribbean	-	-	-	6	6
Developing Africa and Middle East	-	-	-	118	118
Developing Asia and Pacific	3,122	-	20	2,372	5,514
Of which: China	*3,122*	-	*20*	*2,276*	*5,418*
	3,570	-	220	3,007	6,797

18. CORPORATE GOVERNANCE

The Company recognises the importance of sound corporate governance. The Company follows and observes the guidelines set out in the HKMA Supervisory Policy Manual module "CG-1 Corporate Governance of Locally Incorporated Authorized Institutions".

All staff members of the Company are expected to consistently maintain high ethical standards and are required to strictly follow the Code of Conduct. The Code of Conduct sets out standards and values to which all the Company's staff members are required to adhere. Topics including, but not limited to, use of information, responsible business conduct, equal opportunity, and conduct when obtaining business, are covered by the Code of Conduct. The Company periodically reminds staff of the requirement to adhere to the Code of Conduct via various communication channels.

(a) Board of Directors

The Board of the Company consists of six directors as of 31 December 2021.

The Board is responsible for leading, overseeing and managing the development of the Company to maximise shareholder's return by balancing risk exposures. The Board is responsible for formulating the Company's short-term and long-term business strategies and monitoring the implementation thereof.

The Board authorises the management to carry on the daily operation of the Company. The Board is responsible for overseeing the implementation of strategies and business by the management. The Board is also responsible for making decisions on matters that the management has not been empowered.

18. CORPORATE GOVERNANCE (continued)

(a) Board of Directors (continued)

Under the Board, there are four committees, namely Audit Committee, Risk Committee, Nomination and Remuneration Committee and Strategy and Budget Committee to assist it in carrying out its responsibilities.

(b) Audit Committee

The Audit Committee consists of three members, all are non-executive directors (two are independent non-executive directors). The AC is chaired by an independent non-executive director. The Audit Committee held two meetings during the year ended 31 December 2021.

The mandate of the Audit Committee is to assist the Board in overseeing and supervision of the risk management and internal control of the Company; the integrity of the Company's audited financial statements; the performance of Internal Audit function and also the qualifications, independence and service level of the external auditor of the Company.

(c) Risk Committee

The Risk Committee (the "RC") of the Company was established under the Board. It consists of three members, two independent non-executive directors (including the Chairperson), and one is non-executive director. Three meetings were held during the year ended 31 December 2021.

The principal objective of the RC is to provide independent oversight and guidance to the Board and senior management on risk issues in the areas of market, credit, operational, interest rate, liquidity, strategic, legal, and reputation risks of the Company. It is responsible for organising, advising, coordinating and monitoring the risk management within the Company.

The RC is authorised by the Board to perform the following key functions:

- Review and provide recommendation of the Company's risk appetite, risk management strategies, risk policies and guidelines and the adequacy of the Company's risk management framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;

- Oversee the establishment and maintenance of appropriate infrastructure, resources and systems for risk management, particularly in relation to the Company's adherence to the approved risk appetite and related policies;

- Oversee the strategies for capital and liquidity management, and the design and execution of stress testing and scenario analyses for all relevant risks of the Company;

- Review and examine periodic reports provided by the senior management on the state of the Company's risk culture, risk exposure and risk management activities; and

- Review and recommend to the Board for the approval of new business that exceed the EC's authority and approve risk limits and significant business transactions according to the authority delegated by the Board.

18. CORPORATE GOVERNANCE (continued)

(c) Risk Committee (continued)

The risk appetite is the predefined extent of risk, which the Company is willing to take and tolerate, to maintain prudential operation and continuous development and realize the strategic objective, in line with the appeals and expectations of depositors, regulators, shareholder and other major stakeholders. The risk appetite is an important component of the business and risk strategies of the Company, and guides operation and management.

The Company operates in a legal, compliant and prudential manner, mitigates systematic risks, maintains reasonable capital adequacy level and sufficient liquidity, and strives to achieve a satisfactory return to the shareholder. The Company establishes the comprehensive risk management system suitable to the business strategy, improves governance, improves frameworks, optimizes operational process, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

It is expressed in the Company's risk appetite statement as defined by different levels of thresholds in relation to various major risk areas the Company exposes to. The thresholds determine the maximum levels of risk the Company can assume before breaching the internal limits or regulatory requirements.

The Board oversees the implementation of the relevant procedures and controls of the risk appetite framework. The RC supervises the Company's overall risk culture in accordance with the risk appetite statement. Periodic risk appetite reports are presented to senior management. Business units perform the necessary controls in the context of the risk appetite statement and report any major issues under the predefined escalation requirements for further action.

(d) Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the "NRC"), which is composed of one independent non-executive director (Chairman) and two non-executive directors, assists the Board in identifying and nominating candidates as directors and senior management of the Company for appointment for the approval of the Board as well as in its overseeing the formulation and implementation of the Company's remuneration system. It also advises and assists the Board in discharging its responsibilities for the Company's culture-related matters. The NRC held four meetings and passed eight written solutions during the year ended 31 December 2020.

(e) Strategy and Budget Committee

The Strategy and Budget Committee (the "SBC"), which is composed of three members, including the Chairman, the Chief Executive an independent non-executive director. The SBC convened one physical meeting and one meetings by written resolutions during the year ended 31 December 2021.

It advises the Board on the Company's medium to long-term development needs and goals, the Company's strategic business plan, annual financial budget, major investments, capital expenditure, and strategic commitments of the Company. It also assists the Board in overseeing the implementation status of the Company's strategic and budgetary plans, evaluating the level and trend of the Company's strategic risk as well as the adequacy and effectiveness of the Company's strategic risk management framework.

18. CORPORATE GOVERNANCE (continued)

(f) Executive Committee

During the year, the Executive Committee ("EC") was composed of the CE, Alternative Chief Executive, Chief Operating Office, Chief Risk Officer, Head of Compliance, Head of Investment, Head of Finance, AML Compliance Officer and Head of Sales. After the reorganization of the composition from 24 September 2021, the EC is chaired and led by CE ("the Chairperson"), and is composed of the CE, Alternate Chief Executive, Deputy Chief Executive and Chief Risk Officer. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control and Credit Committee (the "RCCC"), Asset and Liability Committee (the "ALCO") and New Business and Product Committee (the "NBPC").

(g) Asset and Liability Committee

The ALCO is a sub-committee of the EC.

The principal objective of the ALCO is to oversee the management of assets and liabilities. In particular, the committee is charged with the responsibilities to:

- Formulate strategies and tactics in the allocation of asset and liability;
- Provide oversight on interest rate, liquidity and foreign exchange rate risks in accordance with the Company's risk management framework adopted by the RC or the Board;
- Oversee capital matters, including capital planning and allocation of capital; and
- Formulate relevant policies and important guidelines in accordance with the authorization of EC.

The ALCO is composed of the senior staff including the Chief Executive, the Head of Finance, the Head of Treasury, the Head of Risk Management, the Head of Sales, and the Head of Compliance. All the ALCO members, including the Chairperson, are appointed by the EC. None of the ALCO members is independent non-executive director. The ALCO held four meetings during the year ended 31 December 2021.

18. CORPORATE GOVERNANCE (continued)

(g) Asset and Liability Committee (continued)

The ALCO is authorized by the EC to perform the following functions:

- To formulate and recommend strategies on asset and liability management;
- To formulate and recommend strategies on capital matters, including capital planning and allocation;
- To oversee interest rate, foreign exchange and liquidity risks in accordance with the guidelines approved by the RCCC and/or the policies approved by the EC and RC/ the Board;
- To review and recommend guidelines on capital matters to the EC for approval and policy on capital matters to the EC and SBC/ the Board for approval;
- At the request from any relevant regulatory authorities, to assist the Board and the EC to examine and report on the Company's risk status and any relevant risk management issues associated with asset and liability management;
- Where the EC or the Board has delegated the approval authority to the Committee, to review and approve asset and liability transactions, and delegation of relevant limits; and
- To act on other issues as directed by the EC and the Board.

19. APPROACH FOR RECRUITMENT AND SELECTION OF MEMBERS OF THE BOARD

The Company places great emphasis on fitness and propriety of directors. It has formulated the Selection, Appointment and Succession Policy of the Board of Directors, which lays out the fit and proper criteria that the Board shall consider whether a proposed candidate is suitable and appropriate for the appointment as director of the Company. All director appointments are made on merit, in the context of the skills and experience to the Board as a whole requires, taking into account various aspects of the Board diversity which include but not limited to professional experience, skills and knowledge, etc. Currently the Board comprises six members, one executive directors, four non-executive directors and one independent non-executive director. All of them satisfied the requirements of HKMA of being a fit and proper person to occupy their positions as directors of the Company.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS

Role	Name	Information
Chairman	WU Shiqiang	Profile 1 (Cessation with effect from 31 January 2022)
Board Members	WANG Zhongze	Profile 2
	QIAN Feng	Profile 3
	LAM Kwong Siu	Profile 4
	IP Sio Kai	Profile 5
Independent Non-executive Director	WONG Wai Kwan Anna	Profile 6
	NG Kim Lam	Profile 7 (Appointed on 20 April 2022)
	SUEN Man Tak	Profile 8 (Appointed on 26 April 2022)
Acting Chief Risk Officer	WONG Sai Chung (Jason)	Appointed on 22 January 2021
Chief Risk Officer	TAN Sock Hiang Susan	Resigned on 12 January 2021
	XING Shanshan	Appointed on 20 May 2021
Head of Internal Audit Division	LI Yi Hong Ally	Appointed on 29 June 2018

The information about Board Members below is as of 31 December 2021.

Profile 1 – WU Shiqiang
Mr. WU Shiqiang resigned as a Non-executive Director, the Chairman of the Board of Directors, the Chairman and a member of the Strategy and Budget Committee of the Company all with effect from 31 January 2022.

Profile 2 – WANG Zhongze
Mr. WANG Zhongze, aged 59, is a Non-executive Director and a member of Nomination and Remuneration Committee of the Company. He is currently a member of Executive Committee of BOC International Holdings Limited.

Mr. WANG joined the State Energy Investment Corporation of China in 1990, and served sequentially as Engineer, Senior Engineer of Electric Power Technology Development Department and Deputy Divisional Head of Electric Power Project Department. In 1994, he joined China Development Bank and served sequentially as Deputy Divisional Head, Divisional Head of Electric Power Project Department and Divisional Head of International Finance Department. In 2000, Mr. WANG joined China Everbright Group and concurrently served as Deputy General Manager & Executive Director of China Everbright International Ltd (stock code: 257) and Chief Finance Officer & Executive Director of Hong Kong Construction Holdings Ltd (stock code: 190). He later served as Director of China Everbright Holdings Ltd mainly in charge of Finance Management Department.

Mr. WANG received a Doctoral Degree in Engineering from Tsinghua University, China, and an EMBA Degree from Richard Ivey School of Business, the University of Western Ontario, Canada. Mr. WANG is also a Member of HKICPA.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 2 – WANG Zhongze (continued)
Mr. WANG also holds a number of directorships in other group companies of BOC International Holdings Limited including BOCI Asset Management Limited, BOCI Investment Limited (incorporated in Hong Kong), BOCI Nominees Limited, BOCI Finance Limited, BOCI Investment Limited (incorporated in BVI), BOCI Global Commodities Holdings Limited, BOCI Global Commodities Limited, BOCI Global Commodities (UK) Limited, BOCI Commodities Trading (China) Co. Limited, BOCI Commodities & Futures (USA) LLC, BOC International Singapore Holdings Pte. Ltd., BOCI Fidential Holdings Limited, BOCI Financial Products Limited, Bank of China International (UK) Limited, BOCI Securities Limited, BOCI Prudential Asset Management Limited and BHR Equity Investment Fund Management Co., Ltd. Mr. Wang is also a Director of The Hong Kong Securities and Investment Institute since December 2021.

Profile 3 – QIAN Feng
Mr. QIAN Feng, aged 53, is an Executive Director, the Acting Chief Executive and Alternate Chief Executive of the Company. Mr. QIAN has more than 30 years of experience in banking and brokerage business. Before joining the group of BOC International Holdings Limited in 2003, Mr. QIAN served as Deputy Head of Business Management, Global Markets Department of Bank of China Limited, and an Assistant Manager of Treasury Department of Bank of China Limited, Sydney Branch.

Mr. QIAN holds a bachelor degree in Economics from Renmin University of China and a master degree in Economics from PBC School of Finance, Tsinghua University of China.

Mr. QIAN holds a number of directorships in the group companies of BOC International Holdings Limited including BOCI Securities Limited, BOCI Finance Limited, BOCI Asia Limited, and BOCI Financial Products Limited.

Profile 4 – LAM Kwong Siu
Mr. LAM Kwong Siu GBS and SBS, aged 87, is a Non-executive Director and member of each of Audit Committee and Nomination & Remuneration Committee of the Company. Mr. LAM has more than 50 years of banking experience. Currently, Mr. LAM serves as a Vice Chairman of BOC International Holdings Limited. He also serves as the honorary chairman of the Hong Kong Federation of Fujian Associations, life honorary chairman of the Hong Kong Fukien Chamber of Commerce, vice chairman of the Fujian Hong Kong Economic Co-operation, life honorary chairman of the Chinese General Chamber of Commerce, adviser of the Hong Kong Chinese Enterprises Association and the honorary president of the Chinese Bankers Club of Hong Kong.

In addition, Mr. LAM has been serving as an Independent Non-executive Director of Fujin Holdings Ltd. (stock code: 181) since December 2003, an Independent Non-executive Director of Xinyi Glass Holdings Limited (stock code: 868) since August 2004, a Director of BOC Poverty Relief and Education Charity Fund Limited since November 2008 and the Chairperson since May 2021 , an Independent Non-executive Director of Yuzhou Properties Company Limited (stock code: 1628) since October 2009, an Independent Non-executive Director of Far East Consortium International Limited (stock code: 035) since September 2011, a Director of Chu Hai College of Higher Education Limited Since November 2021 and the Chairperson since December 2021.

Mr. LAM was awarded the HKSAR Silver Bauhinia Star and Gold Bauhinia Star in 2003 and 2016 respectively. He was a delegate of the 10th National People's Congress.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 5 – IP Sio Kai
Mr. IP Sio Kai, aged 61, is a Non-executive Director and member of each of the Risk Committee and Strategy and Budget Committee of the Company. Mr. IP has more than 30 years of banking experience. Currently, Mr. IP serves as a Deputy General Manager of Bank of China Limited Macau Branch. He also serves as a Member of Legislative Assembly of Macau Special Administrative Region, Member of the Chinese People's Political Consultative Conference of Chongqing City, Member of the Economic Development Committee of Macau Special Administrative Region, Member of The Standing Committee of the Coordination of Social Affairs of Macau Special Administrative Region, Chairman of the Macau Association of Banks , President of Macau Goldsmith's Guild, Member of Macao Committee for Guangdong-Hong Kong-Macao Greater Bay Area Development of the Boao Forum for Asia (BFA). Mr. IP received Master of Management from Sun Yat-Sen University, Guangzhou, China.

Profile 6 – WONG Wai Kwan Anna
Ms. WONG Wai Kwan Anna, aged 62, is an Independent Non-executive Director, Chairperson of the Risk Committee and member of Audit Committee of the Company. Ms. WONG is a Professor of Practice in Finance at the Faculty of Business and Economics and the Program Director of the Bachelor of Finance (Asset Management and Private Banking) at the University of Hong Kong. She teaches financial regulations, compliance and credit risk management at the Faculty.

Ms. WONG has an extensive experience in banking and finance. She had worked in major financial institutions including Citigroup, HSBC, Credit Suisse, BNP Paribas and the Chase Manhattan Bank, covering private banking, asset management, securities brokerage, corporate and commercial banking, credit and risk management. She was the Head of Private Bank, Greater China at Credit Suisse and the CEO of HSBC Broking Services (Asia) Limited. She had held Executive Officer/Responsible Officer position of various financial institutions covering type 1, 2, 3, 4, 6 and 9 licensed activities.

Ms. WONG is a Senior Fellow of the Hong Kong Securities and Investment Institute, a Chapter Honoree of the Chinese University of Hong Kong Chapter of Beta Gamma Sigma, an Honorary Advisor of the Hong Kong Institute of Bankers, a Non-executive Director of the Insurance Authority, a member of the Competition Commission and a member of the Process Review Panel of the Financial Reporting Council. Her previous appointments included member of the Advisory Committee of the Securities and Futures Commission, a temporary member of the Financial Reporting Council, Director of the Hong Kong Securities and Investment Institute and Director of the Hong Kong Securities Association Limited.

Ms. WONG received B.A. from the University of Hong Kong, M.B.A. from the Chinese University of Hong Kong and Juris Doctor from the University of Hong Kong.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 7 – NG Kim Lam
Mr. NG Kim Lam, aged 50, is an Independent Non-executive Director, Chairperson of the Audit Committee and member of the Strategy and Budget Committee. Mr. NG has over 25 years of experience in providing professional services to conglomerates in various industries, including financial services, technology, energy, retail and manufacturing etc. Mr. NG was the national head of technology and media sectors for KPMG in China. In this role, Mr. NG founded the innovative startup center in 2015, established an online and offline model in serving high growth technology companies, and led the teams which developed an online ecosystem app connecting startups, corporates, investors, research institutes and government bodies and a SIP framework to identify and evaluate early stage technology companies. Mr. NG served as the core/lead partner establishing the ecosystem of high growth technology companies in China, including Autotech, RetailTech, Fintech, Biotech and Chipset.

Mr. NG is a Certified Information Systems Security Professional, a Certified Information Systems Auditor, a Member of American Institute of Certified Public Accountants and a Chartered Global Management Accountant.

Profile 8 – SUEN Man Tak
Mr. SUEN Man Tak, aged 63, is an Independent Non-Executive Director, Chairperson of Nomination and Remuneration Committee and a member of Risk Committee of the Company. Mr. SUEN has extensive experience in the enforcement of securities and futures related legislation as well as commercial crime investigations. Mr. SUEN had served with Securities and Futures Commission of Hong Kong ("SFC") for more than 17 years. He is now a practicing barrister-at-law specializing in litigation and advisory work on Securities and Futures Ordinance, Codes on Takeovers and Mergers and Share Buy-backs, Rules Governing the Listing of Securities on the Stock Exchange, Code of Conduct for Persons Licensed by or Registered with the SFC, market misconduct, white collar crimes and anti-money laundering activities. Mr. SUEN is an independent non-executive director of each of Sino-Ocean Group Holdings Limited, Zijin Mining Group Co., Ltd.and China Jinmao Holdings Group Limited, all of which are listed on the Stock Exchange. Mr. SUEN has been appointed as an independent director of Inception Growth Acquisition Limited, a company listed on The Nasdaq Global Market on 9 December 2021.

Mr. SUEN received his master's degree in Accountancy from Charles Sturt University, Australia in September 1996. He further obtained a degree of Juris Doctor in July 2010 and a postgraduate certificate in Laws in July 2011, both from City University of Hong Kong. He was called to the Hong Kong Bar in February 2013. Mr. SUEN has been a member of Hong Kong Institute of Certified Public Accountants since July 1998 and a member of Hong Kong Securities and Investment Institute since April 1999.

21. KEY ELEMENTS OF THE DISCLOSURE POLICY

The banking disclosures are governed by the Company's Disclosure Policy, which has been approved by the Board. The Disclosure Policy sets out the governance, control and assurance requirements for publication of the document. While the supplementary information is not required to be externally audited, the document has been subject to independent review in accordance with the Company's policies on disclosure and its financial reporting and governance process.

The Disclosure Policy of the Company is prepared in accordance with the requirements specified in the Banking (Disclosure) Rules, the applicable accounting standards and the HKMA Supervisory Policy Manual CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules".