

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 2022

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 2022.

### 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 2022 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 2022 (2021: Nil).

### 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:

Wu Shiqiang (resigned on 31 January 2022)  
Qian Feng (resigned on 16 November 2022)  
Wang Zhongze (resigned on 28 November 2022)  
Ip Sio Kai  
Lam Kwong Siu  
Ng Kim Lam (appointed on 20 April 2022)  
Suen Man Tak (appointed on 26 April 2022)  
Wong Wai Kwan Anna  
Guo Zhiqiang (appointed on 24 May 2022)  
Wang Ying (appointed on 2 August 2022)  
Wang Yan (appointed on 7 March 2023)  
Wang Zeyu (appointed on 11 April 2023)

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 its 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.

REPORT OF THE DIRECTORS (continued)

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 executive 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.

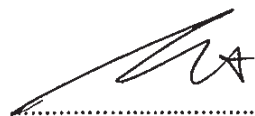
Compliance with the Banking (Disclosure) Rules

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

Auditors

The financial statements for the year ended 31 December 2022 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



Geng Min Catherine  
Secretary

Hong Kong  
20 April 2023



羅兵咸永道

## **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 62, comprise:

- the statement of financial position as at 31 December 2022;
- 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 2022, 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.

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### **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.

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### **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.

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### **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**  
Certified Public Accountants

Hong Kong, 20 April 2023

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

INCOME STATEMENT

Year ended 31 December 2022

	Notes	2022 HK\$	2021 HK\$
Interest income	4	129,014,347	105,772,112
Interest expense	4	(40,361,430)	(7,735,397)
Net interest income	4	<u>88,652,917</u>	<u>98,036,715</u>
Fee and commission income	5	144,441,811	273,065,422
Fee and commission expense	5	(101,373)	(278,854)
Net fee and commission income	5	<u>144,340,438</u>	<u>272,786,568</u>
Net trading (loss)/gains	6	<u>(133,674)</u>	<u>3,046,673</u>
Operating income		232,859,681	373,869,956
Operating expenses	8	(223,461,409)	(227,845,009)
Profit before impairment allowances		9,398,272	146,024,947
Net release/(charge) of impairment allowances	9	<u>126,332</u>	<u>(78,052)</u>
Profit before taxation		9,524,604	145,946,895
Income tax expense	10	(377,334)	(24,054,760)
Profit for the year		<u>9,147,270</u>	<u>121,892,135</u>

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 2022

	2022 HK\$	2021 HK\$
Profit for the year	<u>9,147,270</u>	<u>121,892,135</u>
Total comprehensive income for the year	<u>9,147,270</u>	<u>121,892,135</u>

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

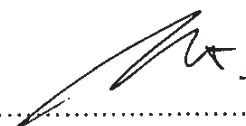
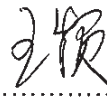
BANK OF CHINA INTERNATIONAL LIMITED  
中銀國際有限公司

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	31 December 2022 HK\$	31 December 2021 HK\$
<b>ASSETS</b>			
Cash and due from banks	11	2,448,791,907	3,237,604,476
Derivative financial instruments	12	2,520,361	4,768,569
Loans and advances to customers	13	2,951,152,732	4,744,657,425
Debt instruments	14	993,212,552	699,974,585
Deferred tax assets	10	36,819	61,143
Tax recoverable		3,834,549	-
Other assets	15	5,726,354	6,110,731
<b>Total assets</b>		<b>6,405,275,274</b>	<b>8,693,176,929</b>
<b>LIABILITIES</b>			
Deposits from customers	16	4,276,284,437	6,778,104,894
Amounts due to an intermediate holding company	17	87,690,251	68,009,923
Derivative financial instruments	12	3,098,780	1,917,863
Tax payable		-	17,591,240
Other liabilities	18	244,929,738	43,428,211
<b>Total liabilities</b>		<b>4,612,003,206</b>	<b>6,909,052,131</b>
<b>EQUITY</b>			
Share capital	19	1,000,000,000	1,000,000,000
Retained earnings		793,272,068	784,124,798
		<b>1,793,272,068</b>	<b>1,784,124,798</b>
<b>Total liabilities and equity</b>		<b>6,405,275,274</b>	<b>8,693,176,929</b>

The financial statements on pages 6 to 62 were approved by the Board of Directors on 20 April 2023 and were signed on its behalf:

			
Geng Min Catherine Secretary	Guo Zhiqiang Director	Wang Ying Director	Lam Kwong Siu Director

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 CHANGES IN EQUITY

Year ended 31 December 2022

	Share capital HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2021	1,000,000,000	662,232,663	1,662,232,663
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Profit for the year and total comprehensive income for the year	-	121,892,135	121,892,135
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Balance at 31 December 2021 and 1 January 2022	1,000,000,000	784,124,798	1,784,124,798
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Profit for the year and total comprehensive income for the year	-	9,147,270	9,147,270
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Balance at 31 December 2022	1,000,000,000	793,272,068	1,793,272,068
	=====	=====	=====

<sup>1</sup> As at 31 December 2022, a regulatory reserve of HK\$29,478,435 (2021: HK\$47,413,593) was earmarked in the retained earnings above. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose and in consultation with the Hong Kong Monetary Authority (“HKMA”). Movements in the reserves are made directly through retained earnings.

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 CASH FLOWS

Year ended 31 December 2022

	2022 HK\$	2021 HK\$
<b>Cash flows from operating activities</b>		
Profit before taxation	9,524,604	145,946,895
Interest income from debt instruments	(8,592,476)	(60,337)
Net (release)/charge of impairment allowances	(126,332)	78,052
Decrease/(increase) in balances and placements with banks with original maturity over three months	2,104,255,031	(939,479,253)
Decrease in derivative financial instruments	3,429,125	678,039
Decrease in other assets	384,376	2,503,838
Decrease in loans and advances to customers	1,793,504,661	146,806,560
Increase in debt instruments	(89,325,924)	(349,764,963)
Decrease in deposits from customers	(2,501,820,457)	(759,393,857)
Increase/(decrease) in amounts due to an intermediate holding company	19,680,328	(11,564,124)
Increase in other liabilities	6,085,139	7,435,639
Hong Kong profits tax paid	(21,778,799)	(11,813,418)
Net cash generated from/(used in) operating activities	1,315,219,276	(1,768,626,929)
<b>Net increase/(decrease) in cash and cash equivalents</b>	1,315,219,276	(1,768,626,929)
Cash and cash equivalents at beginning of year	1,133,590,088	2,902,217,017
<b>Cash and cash equivalents at end of year</b>	2,448,809,364	1,133,590,088
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and due from banks with original maturity within three months	2,448,809,364	1,133,590,088

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 20 April 2023.

In the opinion of the directors, the immediate holding company of the Company is BOCI Asia Limited, which is incorporated in Hong Kong. The Company is subject to the control of the State Council of the People Republic China Government through China Investment Corporation Limited and its wholly-owned subsidiary Central Huijin Investment Ltd.

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. In 2022, to reflect management’s assessment as part of the continuing review of the Company’s business model and operations, the Company has combined the cash and due from banks with placements with banks for the balance sheet presentation and has reclassified the cash flows arising from debt instruments transactions from investing activities to operating activities in the statements of cash flows. The regulatory reserve has also been combined with the Company’s retained earnings for presentation purpose. The comparative figures in the financial statements have been re-presented to conform with current year’s presentation.

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 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 23 to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

Amendments to HKFRSs	<i>Annual Improvements to HKFRS Standards 2018–2020</i>
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The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Company in 2022**

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

Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of accounting policies<sup>1</sup></i>
Amendments to HKAS 8	<i>Definition of accounting estimates<sup>1</sup></i>
Amendments to HKAS 12	<i>Deferred tax related to assets and liabilities arising from a single transaction<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

The above new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 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.

2.2 Foreign currency translation

**(a) Functional and presentation currency**

Items included in the financial statements of the Company 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 and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.2 Foreign currency translation (continued)

**(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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets and liabilities

**2.4.1 Financial assets and liabilities**

*2.4.1.1 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 as described in note 23 to these financial statements, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

*2.4.1.2 Classification and subsequent measurement*

The Company has adopted HKFRS 9 and classifies its financial assets in 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 as:

- **Amortised cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (“SPPI”), and that are not designated at 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 23 to these financial statements. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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, 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.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 23 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 23 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Interest income and fee and commission income

**2.11.1 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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, 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, interest rate risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputation risk and strategic risk. The Company establishes the risk management system commensurate with the business strategy. Risk management technologies and tools adopted identify, measure, report, control and mitigate materials risks in time, therefore control the risk level within the scope set by the risk appetite.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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, Deputy Chief Executive and Chief Risk Officer. After the reorganization of the composition from 7 December 2022, the EC is chaired and led by CE (“the Chairperson”), and is composed of the CE, Alternate Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief Operating Officer, Head of Sales, and the s72B managers who are responsible for AML, compliance, risk management, internal audit, finance, treasury and investment functions. 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”), Anti-Money Laundering Committee (the “AMLC”), 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

Senior Management level (continued)

The RCCC is a sub-committee of the EC of the Company. The general objective of setting up RCCC is to organise, advise, coordinate and enable senior management to monitor the Company's risk exposure through reporting of major risk matters on market, credit, interest rate, liquidity, operational, strategic, reputation and IT 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 Product Marketing Team and Treasury Department, the exposures risks are 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 financial 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 2022					
Cash and due from banks	1,676,431	-	-	772,361	2,448,792
Derivative financial instruments	-	-	-	2,520	2,520
Loans and advances to customers	2,939,424	11,729	-	-	2,951,153
Debt instruments at amortised cost	399,471	398,396	195,346	-	993,213
Financial assets included in other assets	-	-	-	64	64
<b>Total assets</b>	<b>5,015,326</b>	<b>410,125</b>	<b>195,346</b>	<b>774,945</b>	<b>6,395,742</b>
Deposits from customers	3,778,245	195,976	302,063	-	4,276,284
Amounts due to an intermediate holding company	-	-	-	71,206	71,206
Derivative financial instruments	-	-	-	3,099	3,099
Financial liabilities included in other liabilities	-	-	-	214,274	214,274
<b>Total liabilities</b>	<b>3,778,245</b>	<b>195,976</b>	<b>302,063</b>	<b>288,579</b>	<b>4,564,863</b>
<b>Total interest repricing gap</b>	<b>1,237,081</b>	<b>214,149</b>	<b>(106,717)</b>		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 2021					
Cash and due from banks	681,177	1,170,059	933,957	452,411	3,237,604
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 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)		

Interest-bearing assets and liabilities of the Company include cash and due from 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\$13,240,000 (2021: HK\$15,549,000).

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 and its related companies 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 financial 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 2022						
Spot assets	4,489,177	1,509,600	86,527	79,233	231,205	6,395,742
Spot liabilities	2,688,701	1,292,738	447,772	-	135,652	4,564,863
Net on-balance sheet position	<u>1,800,406</u>	<u>216,862</u>	<u>(361,245)</u>	<u>79,233</u>	<u>95,553</u>	<u>1,830,879</u>
Off-balance sheet net notional position	<u>-</u>	<u>(219,375)</u>	<u>361,422</u>	<u>(68,036)</u>	<u>(74,562)</u>	<u>(551)</u>
	HKD HK\$'000	USD HK\$'000	CNY HK\$'000	JPY HK\$'000	Others HK\$'000	Total HK\$'000
31 December 2021						
Spot assets <sup>(note)</sup>	4,806,517	3,541,362	28,229	55,534	255,378	8,687,020
Spot liabilities <sup>(note)</sup>	3,361,078	2,617,911	821,840	5,163	85,469	6,891,461
Net on-balance sheet position	<u>1,445,439</u>	<u>923,451</u>	<u>(793,611)</u>	<u>50,371</u>	<u>169,909</u>	<u>1,795,559</u>
Off-balance sheet net notional position	<u>273,064</u>	<u>(883,224)</u>	<u>802,380</u>	<u>(44,022)</u>	<u>(142,710)</u>	<u>5,488</u>

Note: In 2022, only the total amount of the spot assets and spot liabilities are disclosed. Comparative figures have been re-presented to conform with current year's presentation.

At 31 December 2022, 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\$2,000 lower/higher (2021: HK\$88,000 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.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

**3.1.2 Foreign exchange risk (continued)**

At 31 December 2022, 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\$112,000 lower/higher (2021: HK\$63,000 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.

3.2 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 set 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 2022 and 2021, there was one impaired loan which had been fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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:

	2022			2021		
	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	2,951,153	-	2,951,153	4,744,657	-	4,744,657

(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 2022 (2021: Nil).

(c) Impaired loans and advances to customers

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

	2022 HK\$'000	2021 HK\$'000
Gross classified or impaired loans and advances to customers which have been overdue for:		
- over one year	1,274	1,273
Gross classified or impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.04%	0.03%
Impairment allowances under individual assessment made in respect of such loans and advances to customers	1,274	1,273
Current market value of collateral held against the covered portion of such loans and advances to customers	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

**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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral received HK\$'000	

**31 December 2022**

**Financial assets**

Derivative financial instruments	30	-	30	(30)	-	-
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	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		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral pledged HK\$'000	

**31 December 2022**

**Financial liabilities**

Amounts due to an intermediate holding company	71,206	-	71,206	-	-	71,206
Derivative financial instruments	2,616	-	2,616	(30)	-	2,586

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

**3.2.3 Offsetting financial instruments (continued)**

			Related amounts not set off in the statement of financial position			
	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	Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
<b>31 December 2021</b>						
<b>Financial assets</b>						
Derivative financial instruments	990	-	990	(783)	-	207
			Related amounts not set off in the statement of financial position			
	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	Financial instruments HK\$'000	Cash collateral pledged HK\$'000	Net amount HK\$'000
<b>31 December 2021</b>						
<b>Financial liabilities</b>						
Amounts due to an intermediate holding company	68,010	-	68,010	-	-	68,010
Derivative financial instruments	783	-	783	(783)	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 debt securities issued by the HKMA and public interest entities denominated in Hong Kong dollar. 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 were deposited in reputable large commercial banks.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

- Loan and advances to customer
- Debt instruments at amortised cost
- Financial assets included in other assets
- Cash and balances with bank

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

The table below analyses the Company's financial 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 and 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
<b>31 December 2022</b>						
Cash and due from banks	2,448,792	-	-	-	-	2,448,792
Derivative financial instruments	1,019	468	1,033	-	-	2,520
Loans and advances to customers	2,939,424	11,729	-	-	-	2,951,153
Debt instruments at amortised cost	399,470	398,396	195,347	-	-	993,213
Other assets	-	-	-	-	64	64
<b>Total assets</b>	<b>5,788,705</b>	<b>410,593</b>	<b>196,380</b>	<b>-</b>	<b>64</b>	<b>6,395,742</b>
Deposits from customers	3,778,246	195,976	302,062	-	-	4,276,284
Amounts due to an intermediate holding company	71,206	-	-	-	-	71,206
Derivative financial instruments	2,930	48	121	-	-	3,099
Other liabilities	206,747	-	4,870	2,657	-	214,274
<b>Total liabilities</b>	<b>4,059,129</b>	<b>196,024</b>	<b>307,053</b>	<b>2,657</b>	<b>-</b>	<b>4,564,863</b>
<b>Net liquidity gap</b>	<b>1,729,576</b>	<b>214,569</b>	<b>(110,673)</b>	<b>(2,657)</b>	<b>64</b>	<b>1,830,879</b>

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

	On demand and up to 1 month <sup>(noted)</sup> 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
<b>31 December 2021</b>						
Cash and due from banks	1,133,588	1,170,059	933,957	-	-	3,237,604
Derivative financial instruments	1,792	993	1,984	-	-	4,769
Loans and advances to customers	4,743,679	834	144	-	-	4,744,657
Debt instruments at amortised cost	399,999	299,976	-	-	-	699,975
Other assets	1	3	-	-	11	15
<b>Total assets</b>	<b>6,279,059</b>	<b>1,471,865</b>	<b>936,085</b>	<b>-</b>	<b>11</b>	<b>8,687,020</b>
 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
Other liabilities	5,516	-	30,534	1,855	5,523	43,428
<b>Total liabilities</b>	<b>3,085,828</b>	<b>2,665,495</b>	<b>1,132,760</b>	<b>1,855</b>	<b>5,523</b>	<b>6,891,461</b>
 Net liquidity gap	 3,193,231	 (1,193,630)	 (196,675)	 (1,855)	 (5,512)	 1,795,559

Note: Comparative figures have been reclassified to conform with current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 and 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
<b>31 December 2022</b>						
<b>Non-derivative cash outflow liabilities</b>						
Deposits from customers	3,780,686	196,505	306,939	-	-	4,284,130
Amounts due to an intermediate holding company	71,206	-	-	-	-	71,206
Other liabilities	206,747	-	4,870	2,657	-	214,274
Total	<u>4,058,639</u>	<u>196,505</u>	<u>311,809</u>	<u>2,657</u>	<u>-</u>	<u>4,569,610</u>
<b>Derivative financial instruments cash flow</b>						
Settled on a gross basis						
Total inflow	611,368	17,259	59,333	-	-	687,960
Total outflow	(613,299)	(16,859)	(58,353)	-	-	(688,511)
	<u>(1,931)</u>	<u>400</u>	<u>980</u>	<u>-</u>	<u>-</u>	<u>(551)</u>



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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
<b>31 December 2021</b>						
<b>Non-derivative cash outflow liabilities</b>						
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
Other liabilities	5,516	-	30,534	1,855	5,523	43,428
Total	<u>3,084,595</u>	<u>2,665,969</u>	<u>1,134,008</u>	<u>1,855</u>	<u>5,523</u>	<u>6,891,950</u>
<b>Derivative financial instruments cash flow</b>						
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)
	<u>568</u>	<u>1,706</u>	<u>3,214</u>	<u>-</u>	<u>-</u>	<u>5,488</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 2022	Financial assets at fair value through profit or loss HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
<b><u>Financial assets</u></b>			
Cash and due from banks	-	2,448,792	2,448,792
Derivative financial instruments	2,520	-	2,520
Loans and advances to customers	-	2,951,153	2,951,153
Debt instruments at amortised cost	-	993,213	993,213
Other assets	-	64	64
Total financial assets	2,520	6,393,222	6,395,742
	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
<b><u>Financial liabilities</u></b>			
Deposits from customers	-	4,276,284	4,276,284
Amounts due to an intermediate holding company	-	71,206	71,206
Derivative financial instruments	3,099	-	3,099
Other liabilities	-	214,274	214,274
Total financial liabilities	3,099	4,561,764	4,564,863

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

At 31 December 2021	Financial assets at fair value through profit or loss HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
<b><u>Financial assets</u></b>			
Cash and due from banks	-	3,237,604	3,237,604
Derivative financial instruments	4,769	-	4,769
Loans and advances to customers	-	4,744,657	4,744,657
Debt instruments at amortised cost	-	699,975	699,975
Other assets	-	15	15
Total financial assets	4,769	8,682,251	8,687,020
<b><u>Financial liabilities</u></b>			
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
Other liabilities	-	43,428	43,428
Total financial liabilities	1,918	6,889,543	6,891,461

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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 SOFR 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 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 2022 and 2021, 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 exposed by the Company is properly identified, assessed, controlled, measured, monitored and reported in a structured, systematic and consistent manner.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

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. 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 identified, including but not limited to operational risk are 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, standardised approach, basic indicator approach and solo basis to calculate its credit risk, market risk, operational risk and capital adequacy ratio respectively.

The detailed information on the Company's capital management is disclosed in the unaudited supplementary information.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

4. NET INTEREST INCOME

	2022 HK\$	2021 HK\$
Interest income		
- loans and advances to customers	91,757,364	80,703,124
- due from banks and other financial institutions	28,664,507	25,008,651
- debt instruments at amortised cost	8,592,476	60,337
	<u>129,014,347</u>	<u>105,772,112</u>
	-----	-----
Interest expense		
- deposits from customers	(40,356,167)	(7,724,060)
- deposits and balances from banks	(5,263)	(11,337)
	<u>(40,361,430)</u>	<u>(7,735,397)</u>
	=====	=====
Net interest income	<u>88,652,917</u>	<u>98,036,715</u>
	=====	=====

5. NET FEE AND COMMISSION INCOME

	2022 HK\$	2021 HK\$
Investment services fees received from fellow subsidiaries (note 21)	144,411,489	273,014,605
Others	30,322	50,817
	<u>144,441,811</u>	<u>273,065,422</u>
Fee and commission income		
Less: fee and commission expense	(101,373)	(278,854)
	<u>144,340,438</u>	<u>272,786,568</u>
	=====	=====
Net fee and commission income		

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31 December 2022

6. NET TRADING (LOSS)/GAINS

	2022 HK\$	2021 HK\$
Foreign exchange	(133,674)	3,046,673

The amounts include gains and losses from spot, forward and swap and difference of assets and liabilities denominated in foreign currencies into HK dollars at the end of the reporting period.

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:

Total directors' emoluments amounted to HK\$12,218,970 (2021: HK\$14,509,698) of which HK\$3,023,578 (2021: HK\$758,220) was paid by the Company. The remaining HK\$9,195,392 (2021: HK\$13,751,478) was paid by an intermediate holding company and a fellow subsidiary in respect of the directors' services to the intermediate holding company and its subsidiaries which is considered 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 such amount. There were no termination benefits (2021: Nil) and retirement benefits (2021: Nil) granted in 2022.

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 (2021: Nil).



NOTES TO THE FINANCIAL STATEMENTS

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8. OPERATING EXPENSES

	2022 HK\$	2021 HK\$
Management fee paid (note 21)	90,865,571	102,441,610
Staff costs	115,930,608	104,711,251
Auditor's remuneration	337,500	337,500
Operating lease expenses	1,467,592	1,492,129
Information technology and communications expenses	8,130,280	9,506,017
Miscellaneous expenses	6,729,858	9,356,502
	<u>223,461,409</u>	<u>227,845,009</u>

9. NET RELEASE/(CHARGE) OF IMPAIRMENT ALLOWANCES

		2022			
	Notes	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
Cash and due from banks	11	223,186	-	-	223,186
Loans and advances to customers	13	(32)	-	-	(32)
Debt instruments at amortised cost	14	(96,821)	-	-	(96,821)
Financial assets included in other assets	15	(1)	-	-	(1)
Net impairment release		<u>126,332</u>	<u>-</u>	<u>-</u>	<u>126,332</u>

		2021			
	Notes	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
Cash and due from banks	11	(76,037)	-	-	(76,037)
Loans and advances to customers	13	206	-	-	206
Debt instruments at amortised cost	14	(2,234)	-	-	(2,234)
Debt instruments at fair value through other comprehensive income		6	-	-	6
Financial assets included in other assets	15	7	-	-	7
Net impairment charged		<u>(78,052)</u>	<u>-</u>	<u>-</u>	<u>(78,052)</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the income statement represents:

	2022 HK\$	2021 HK\$
Current income tax:		
- Hong Kong profits tax	353,010	24,080,187
- Over-provision in prior years	-	(16,827)
Deferred tax charge/(credit)	24,324	(8,600)
	<u>377,334</u>	<u>24,054,760</u>

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:

	2022 HK\$	2021 HK\$
Profit before taxation	<u>9,524,604</u>	<u>145,946,895</u>
Tax calculated at statutory tax rate at 16.5% (2021: 16.5%)	1,571,560	24,081,237
Over-provision in prior years	-	(16,827)
Income not subject to tax	(1,417,759)	-
Expenses not deductible for tax	223,537	-
Others	(4)	(9,650)
Income tax expense	<u>377,334</u>	<u>24,054,760</u>

As at 31 December 2022, deferred tax assets of HK\$36,819 have been recognised in respect of temporary differences arising from fixed assets and impairment allowances (31 December 2021: HK\$61,143).

BANK OF CHINA INTERNATIONAL LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

11. CASH AND DUE FROM BANKS

	31 December 2022 HK\$	31 December 2021 HK\$
Cash and due from banks	1,300,680,053	1,133,590,088
Placements with banks maturing less than one month	1,148,129,311	-
Placements with banks maturing greater than one month	-	2,104,255,031
Less: allowance for impairment losses – Stage 1	(17,457)	(240,643)
	<u>2,448,791,907</u>	<u>3,237,604,476</u>

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

	2022 HK\$	2021 HK\$
Beginning of year - Stage 1	240,643	164,606
Net (release)/charge during the year - Stage 1	(223,186)	76,037
At 31 December	<u>17,457</u>	<u>240,643</u>

There were no overdue or impaired cash and due from banks as at 31 December 2022 (2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative instruments including forwards and swaps contracts for risk management purposes (hedging) and held for trading.

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.

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

Derivative financial instruments entered by the Company are mainly for customer needs and for its own accounts.

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 2022			
Derivatives held for trading			
- Foreign exchange forward and swap	687,960	2,520,361	3,098,780
		<u>2,520,361</u>	<u>3,098,780</u>
31 December 2021			
Derivatives held for trading			
- Foreign exchange forward and swap	1,401,891	4,768,569	1,917,863
		<u>4,768,569</u>	<u>1,917,863</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

13. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2022 HK\$	31 December 2021 HK\$
Loans and advances to customers:		
- individuals	2,526,812,035	4,023,690,044
- corporates	425,615,062	722,241,501
	<u>2,952,427,097</u>	<u>4,745,931,545</u>
Less: allowance for impairment losses	(1,274,365)	(1,274,120)
Total	<u><u>2,951,152,732</u></u>	<u><u>4,744,657,425</u></u>

The carrying amounts of loans and advances to customers approximated their fair value. Included in the balance, there were overdue loans of HK\$1,273,665 as at 31 December 2022 (2021: HK\$1,273,452).

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 2021	874	1,266,184	1,267,058
Net release during the year	(206)	-	(206)
Exchange difference	-	7,268	7,268
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2021 and 1 January 2022	668	1,273,452	1,274,120
Net charge during the year	32	-	32
Exchange difference	-	213	213
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2022	<u><u>700</u></u>	<u><u>1,273,665</u></u>	<u><u>1,274,365</u></u>

As at 31 December 2022, loans and advances to customers classified under stage 1 and stage 3 amounted to HK\$2,951,153,432 and HK\$1,273,665 (2021: HK\$4,744,658,093 and HK\$1,273,452) respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

14. DEBT INSTRUMENTS

	31 December 2022 HK\$	31 December 2021 HK\$
<u>Debt instruments at amortised cost</u>		
Hong Kong Exchange Fund Bills, unlisted	797,911,003	699,992,603
Other debt securities, unlisted	195,416,388	-
Less: allowance for impairment loss – Stage 1	(114,839)	(18,018)
	<u>993,212,552</u>	<u>699,974,585</u>
 Analysed by type of issuers as follows:		
Sovereigns	797,866,087	699,974,585
Public sector entity	195,346,465	-
	<u>993,212,552</u>	<u>699,974,585</u>
 Analysed by issue specific credit rating as follows:		
AA+ to AA-	<u>993,212,552</u>	<u>699,974,585</u>

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

	2022 HK\$	2021 HK\$
Beginning of year – Stage 1	18,018	15,784
Net charge during the year – Stage 1	96,821	2,234
At 31 December	<u>114,839</u>	<u>18,018</u>

There were no overdue debt instruments at amortised cost as at 31 December 2022 (31 December 2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

15. OTHER ASSETS

	31 December 2022 HK\$	31 December 2021 HK\$
Deposits, prepayments and other receivables	5,726,355	6,110,731
Less: allowance for impairment losses – Stage 1	(1)	-
	<u>5,726,354</u>	<u>6,110,731</u>

As at 31 December 2022, deposits, prepayments and other receivables included prepaid expenses of HK\$5,662,382 (2021: HK\$6,095,926).

The movement in provision for impairment against deposits and other receivables is as follows:

	2022 HK\$	2021 HK\$
Beginning of year – Stage 1	-	7
Net charge/(release) during the year – Stage 1	1	(7)
At 31 December	<u>1</u>	<u>-</u>

16. DEPOSITS FROM CUSTOMERS

	31 December 2022 HK\$	31 December 2021 HK\$
Time and call deposits:		
- Individuals	429,077,465	327,944,835
- Corporates	3,847,206,972	6,450,160,059
	<u>4,276,284,437</u>	<u>6,778,104,894</u>

17. AMOUNTS DUE TO AN INTERMEDIATE HOLDING COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

18. OTHER LIABILITIES

	2022 HK\$	2021 HK\$
Payable on pending trade settlement	195,416,388	-
Others <sup>(note)</sup>	49,513,350	43,428,211
	<u>244,929,738</u>	<u>43,428,211</u>

Note: Included in the amount the provision for bonus as part of employee benefits, other payables and accruals of expenses.

19. SHARE CAPITAL

	31 December 2022 HK\$	31 December 2021 HK\$
Issued and fully paid: 1,000,000 (31 December 2021: 1,000,000) ordinary shares	<u>1,000,000,000</u>	<u>1,000,000,000</u>

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.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

21. 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\$
2022			
<u>Income statement</u>			
Interest income	i	5,588,806	13,490,998
Interest expense	ii	(35,297,990)	(5,263)
Fees and commission income	iii	144,411,489	-
Management fee paid	iv	(90,865,571)	-
Operating lease expenses	vii	(1,419,361)	-
Miscellaneous expense	viii	-	(2,264,315)
		<hr/>	<hr/>
2021			
<u>Income statement</u>			
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	vii	(1,329,511)	-
Miscellaneous expense	viii	-	(2,489,727)
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

21. 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\$
2022			
<u>Statement of financial position</u>			
Cash and due from banks	i	-	1,289,305,610
Derivative financial instruments	v	2,490,361	30,000
		<hr/>	<hr/>
Deposits from customers	ii	207,861,763	2,143,386
Derivative financial instruments	v	483,121	2,615,658
		<hr/>	<hr/>
2021			
<u>Statement of financial position</u>			
Cash and due from banks	i	-	2,989,916,904
Derivative financial instruments	v	3,779,052	989,517
		<hr/>	<hr/>
Deposits from customers	ii	879,762,890	2,138,124
Derivative financial instruments	v	1,134,703	783,160
		<hr/>	<hr/>

(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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

21. 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.

(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\$88,862,000 (2021: HK\$90,505,000) was paid to the intermediate holding company by the Company. In relation to the same agreement, HK\$8,003,571 (2021: HK\$11,936,610) 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.

(viii) The Company paid fees to the Bank of China Limited group for the insurance, training services and welfare provided to the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

22. COMMITMENTS

As at 31 December 2022, the Company has no irrevocable loan commitment (2021: Nil) and no forward deposits placed (2021: Nil).

23. 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 2021, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2022

23. 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. 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.

## BANK OF CHINA INTERNATIONAL LIMITED

中銀國際有限公司

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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

		31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
	<b>Regulatory capital (amount)</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
1	Common Equity Tier 1 (CET1)	1,763,757	1,770,852	1,758,138	1,737,969	1,736,650
2	Tier 1	1,763,757	1,770,852	1,758,138	1,737,969	1,736,650
3	Total capital	1,788,109	1,795,318	1,792,105	1,774,718	1,778,901
	<b>RWA (amount)</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
4	Total RWA	2,553,756	2,556,538	3,351,809	3,571,322	4,011,368
	<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>					
5	CET1 ratio (%)	69.07%	69.27%	52.45%	48.66%	43.29%
6	Tier 1 ratio (%)	69.07%	69.27%	52.45%	48.66%	43.29%
7	Total capital ratio (%)	70.02%	70.22%	53.47%	49.69%	44.35%
	<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%) <sup>1</sup>	0.496%	0.523%	0.532%	0.516%	0.448%
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 (%)	2.996%	3.023%	3.032%	3.016%	2.948%
12	CET1 available after meeting the AI's minimum capital requirements (%)	62.62%	62.22%	45.47%	41.69%	36.35%
	<b>Basel III leverage ratio</b>					
13	Total leverage ratio (LR) exposure measure (HK\$'000)	7,217,747	7,082,599	9,404,576	8,648,081	9,676,930
14	LR (%)	24.43%	25.00%	18.69%	20.10%	17.95%

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

1. KEY PRUDENTIAL RATIOS (continued)

		31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
	<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
	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 (%)	66.65%	60.31%	62.37%	59.16%	46.32%
	<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
	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.

<sup>1</sup> The applicable jurisdictional countercyclical capital buffer (CCyB) ratio for Hong Kong used in the calculation of CCyB buffer requirement was 1.0% for 1Q 2021 to 4Q 2022.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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, reputation risk and strategic risk. The Company establishes the risk management system commensurate with the business strategy. Risk management technologies and tools adopted identify, measure, report, control and mitigate materials risks in time, therefore control the risk level within the scope set by the risk appetite. For details of the Company’s risk management governance, please refer to note 3 of the Financial Statements.

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 business activities adhere to the Company’s risk appetite and internal requirements on risk management.

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 escalating significant risk matters to the senior management to ensure the risks exposed by the Company 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 explain the key inherent risks the Company faced, and include the internal requirements which all relevant units have to adhere to, as well as the proper reporting and escalation 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, the 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, stress test results and significant risk events and remedial actions.

Stress test is also part of the Company’s risk management framework. The Company develops different tools to perform the stress test on 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.



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

(b) Overview of RWA

(HK\$'000)		RWA		Minimum capital requirements
		As at 31 December 2022	As at 30 September 2022	As at 31 December 2022
1	Credit risk for non-securitization exposures	1,939,791	1,946,940	154,971
2	Of which STC approach	1,939,791	1,946,940	154,971
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	10,942	10,360	875
7	Of which SA-CCR	10,942	10,360	875
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	1,963	2,500	157
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	37,488	39,850	2,999
21	Of which STM approach	37,488	39,850	2,999
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	568,800	567,525	45,504
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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

(b) Overview of RWA (continued)

		RWA		Minimum capital requirements
		As at 31 December 2022	As at 30 September 2022	As at 31 December 2022
(HK\$'000)				
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	5,228	10,637	421
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	5,228	10,637	421
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	<b>Total</b>	<b>2,553,756</b>	<b>2,556,538</b>	<b>204,085</b>
N/A: Not applicable				

During the fourth quarter in 2022, the movement of RWA was mainly due to the decrease in RWAs on credit risk for non-securitization exposures attributed by corporate and bank exposures.

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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 2022.

		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.

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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

(HK\$)	As of 31 December 2022						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				not subject to capital requirements or subject to deduction from capital
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	
<b>Assets</b>							
Cash and due from banks	2,448,791,907	2,448,791,907	2,448,791,907	-	-	-	-
Derivative financial instruments	2,520,361	2,520,361	-	2,520,361	-	2,520,361	-
Loans and advances to customers	2,951,152,732	2,951,152,732	2,951,152,732	-	-	-	-
Debt instruments at amortised cost	993,212,552	993,212,552	993,212,552	-	-	-	-
Deferred tax assets	36,819	36,819	-	-	-	-	36,819
Tax recoverable	3,834,549	3,834,549	3,834,549	-	-	-	-
Other assets	5,726,354	5,726,354	5,726,354	-	-	-	-
<b>Total assets</b>	<b>6,405,275,274</b>	<b>6,405,275,274</b>	<b>6,402,718,094</b>	<b>2,520,361</b>	<b>-</b>	<b>2,520,361</b>	<b>36,819</b>
<b>Liabilities</b>							
Deposits from customers	4,276,284,437	4,276,284,437	-	-	-	-	4,276,284,437
Amounts due to an intermediate holding company	87,690,251	87,690,251	-	-	-	-	87,690,251
Derivative financial instruments	3,098,780	3,098,780	-	-	-	3,098,780	-
Other liabilities	244,929,738	244,929,738	-	-	-	-	244,929,738
<b>Total liabilities</b>	<b>4,612,003,206</b>	<b>4,612,003,206</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,098,780</b>	<b>4,608,904,426</b>

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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)

(HK\$)	As of 31 December 2021						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
<b>Assets</b>							
Cash and due from banks	3,237,604,476	3,237,604,476	3,237,604,476	-	-	-	-
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 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	-	-	-	-
<b>Total assets</b>	<b>8,693,176,929</b>	<b>8,693,176,929</b>	<b>8,688,347,217</b>	<b>4,768,569</b>	<b>-</b>	<b>4,768,569</b>	<b>61,143</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>6,909,052,131</b>	<b>6,909,052,131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,917,863</b>	<b>6,907,134,268</b>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 the same as the basis for accounting purposes. The Bank does not have subsidiary or overseas branch for accounting and regulatory consolidation.

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

		As of 31 December 2022				
			Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
(HK\$)	Total					
1	Asset carrying value under scope of regulatory consolidation	6,405,275,274	6,402,754,913	-	2,520,361	2,520,361
2	Liabilities carrying value under regulatory scope of consolidation	(3,098,780)	-	-	-	(3,098,780)
3	Total net amount under regulatory scope of consolidation	6,402,176,494	6,402,754,913	-	2,520,361	(578,419)
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	6,879,606	-	-	6,879,606	-
6	Differences due to credit risk mitigation	(1,476,271,677)	(1,476,271,677)	-	-	-
7	Differences due to consideration of provisions	132,997	132,997	-	-	-
8	Exposure amounts considered for regulatory purposes	4,930,229,012	4,923,927,825	-	9,399,967	(578,419)

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 2021				
			Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
(HK\$)		Total				
1	Asset carrying value under scope of regulatory consolidation	8,693,115,786	8,688,347,217	-	4,768,569	4,768,569
2	Liabilities carrying value 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

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 23 to the Company's financial statements for details.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

## 4. COMPOSITION OF CAPITAL

## (a) Composition of regulatory capital

At 31 December 2022		Amount (In HK\$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	763,794	(2)
3	Disclosed reserves	29,478	(3)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	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	<b>CET1 capital before regulatory deductions</b>	<b>1,793,272</b>	
<b>CET1 capital: regulatory deductions</b>			
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)	37	(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)	-	



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		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	29,478	
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	29,478	(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	<b>Total regulatory deductions to CET1 capital</b>	<b>29,515</b>	
29	<b>CET1 capital</b>	<b>1,763,757</b>	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		Amount (In HK\$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
<b>AT1 capital: instruments</b>			
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	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the Company)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
36	<b>AT1 capital before regulatory deductions</b>	-	
<b>AT1 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to AT1 capital</b>	-	
44	<b>AT1 capital</b>	-	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,763,757</b>	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		Amount (In HK\$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
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	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	24,351	
51	<b>Tier 2 capital before regulatory deductions</b>	<b>24,351</b>	
<b>Tier 2 capital: regulatory deductions</b>			
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	-	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		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	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58	<b>Tier 2 capital (T2)</b>	<b>24,351</b>	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	<b>1,788,108</b>	
60	<b>Total RWA</b>	<b>2,553,756</b>	
<b>Capital ratios (as a percentage of RWA)</b>			
61	<b>CET1 capital ratio</b>	<b>69.07</b>	
62	<b>Tier 1 capital ratio</b>	<b>69.07</b>	
63	<b>Total capital ratio</b>	<b>70.02</b>	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	<b>3.00</b>	
65	of which: capital conservation buffer requirement	2.5	
66	of which: bank specific countercyclical capital buffer requirement	0.50	
67	of which: higher loss absorbency requirement	0	
68	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>		
<b>National minima (if different from Basel 3 minimum)</b>			
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
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		Amount (In HK\$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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)	29,611	
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	24,351	
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	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	N/A	N/A
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A	N/A
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

N/A: Not applicable

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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
<b>CET1 capital: instruments and reserves</b>			
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	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	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	<b>CET1 capital before regulatory deductions</b>	<b>1,784,125</b>	
<b>CET1 capital: regulatory deductions</b>			
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)	-	

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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	<b>Total regulatory deductions to CET1 capital</b>	<b>47,475</b>	
29	<b>CET1 capital</b>	<b>1,736,650</b>	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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
<b>AT1 capital: instruments</b>			
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	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
36	<b>AT1 capital before regulatory deductions</b>	-	
<b>AT1 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to AT1 capital</b>	-	
44	<b>AT1 capital</b>	-	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,736,650</b>	



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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
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
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	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	42,251	
51	<b>Tier 2 capital before regulatory deductions</b>	<b>42,251</b>	
<b>Tier 2 capital: regulatory deductions</b>			
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	-	

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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	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58	<b>Tier 2 capital (T2)</b>	<b>42,251</b>	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	<b>1,778,901</b>	
60	<b>Total RWA</b>	<b>4,011,368</b>	
<b>Capital ratios (as a percentage of RWA)</b>			
61	<b>CET1 capital ratio</b>	<b>43.3</b>	
62	<b>Tier 1 capital ratio</b>	<b>43.3</b>	
63	<b>Total capital ratio</b>	<b>44.3</b>	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	<b>2.95%</b>	
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	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>	<b>36.4</b>	
<b>National minima (if different from Basel 3 minimum)</b>			
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
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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

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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
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2021)</b>			
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	N/A	N/A
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A	N/A
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

N/A: Not applicable

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements At 31 December 2022 HK\$	Under regulatory scope of consolidation At 31 December 2022 HK\$	Reference
<b>ASSETS</b>			
Cash and due from banks	2,448,791,907	2,448,791,907	
Derivative financial instruments	2,520,361	2,520,361	
Loans and advances to customers	2,951,152,732	2,951,152,732	
Debt instruments at amortised cost	993,212,552	993,212,552	
Deferred tax assets	36,819	36,819	(4)
Tax recoverable	3,834,549	3,834,549	
Other assets	5,726,354	5,726,354	
<b>Total assets</b>	<b>6,405,275,274</b>	<b>6,405,275,274</b>	
<b>LIABILITIES</b>			
Deposits from customers	4,276,284,437	4,276,284,437	
Amount due to an intermediate holding company	87,690,251	87,690,251	
Derivative financial instruments	3,098,780	3,098,780	
Tax payable	-	-	
Other liabilities	244,929,738	244,929,738	
<b>Total liabilities</b>	<b>4,612,003,206</b>	<b>4,612,003,206</b>	
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000,000	1,000,000,000	(1)
Reserves	793,272,068	793,272,068	
<i>Of which: Retained earnings (including current period profit or loss)</i>		763,793,633	(2)
<i>Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital</i>		29,478,435	(3)
<b>Total equity</b>	<b>1,793,272,068</b>	<b>1,793,272,068</b>	
<b>Total liabilities and equity</b>	<b>6,405,275,274</b>	<b>6,405,275,274</b>	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

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

	Balance sheet as in published financial statements At 31 December 2021 HK\$	Under regulatory scope of consolidation At 31 December 2021 HK\$	Reference
<b>ASSETS</b>			
Cash and due from banks	3,237,604,476	3,237,604,476	
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 amortised cost	699,974,585	699,974,585	
Deferred tax assets	61,143	61,143	(4)
Other assets	6,110,731	6,110,731	
<b>Total assets</b>	<b>8,693,176,929</b>	<b>8,693,176,929</b>	
<b>LIABILITIES</b>			
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	
<b>Total liabilities</b>	<b>6,909,052,131</b>	<b>6,909,052,131</b>	
<b>EQUITY</b>			
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			
<i>Of which: Retained earnings (including current period profit or loss)</i>		736,711,205	(2)
<i>Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital</i>		47,413,593	(3)
<b>Total equity</b>	<b>1,784,124,798</b>	<b>1,784,124,798</b>	
<b>Total liabilities and equity</b>	<b>8,693,176,929</b>	<b>8,693,176,929</b>	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments

**Ordinary Shares as at 31 December 2022 and 31 December 2021**

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
	<b><i>Regulatory treatment</i></b>	
4	Transitional Basel III rules <sup>1</sup>	Common Equity Tier 1
5	Post-transitional Basel III rules <sup>2</sup>	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 2022 and 31 December 2021
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

<sup>1</sup> Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

<sup>2</sup> Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

4. COMPOSITION OF CAPITAL (continued)

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

Ordinary Shares as at 31 December 2022 and 31 December 2021 (continued)

	<i>Coupons / dividends</i>	
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/>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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5. MACROPRUDENTIAL SUPERVISORY MEASURES

**Geographical distribution of credit exposures used in countercyclical capital buffer (“CCyB”)**

**At 31 December 2022**

	<b>Geographical breakdown by Jurisdiction (J)</b>	<b>Applicable JCCyB ratio in effect</b>	<b>RWA used in computation of CCyB ratio</b>	<b>AI-specific CCyB ratio</b>	<b>CCyB amount</b>
		(%)	(HK\$'000)	(%)	(HK\$'000)
1	Hong Kong SAR	1.000%	703,569		
2	<b>Sum</b>		703,569		
3	<b>Total</b>		<b>1,418,915</b>	<b>0.496%</b>	<b>12,653</b>

**At 31 December 2021**

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

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 2022 was 0.496% (31 December 2021: 0.448%) as the majority of its private sector credit exposures are attributed to Hong Kong.



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31 December 2022

6. LEVERAGE RATIO

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

		As at 31 December 2022	As at 31 December 2021
	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	6,405,275	8,693,177
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	13,430	27,828
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)	831,078	1,003,401
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure		-
7	Other adjustments	(30,629)	(47,476)
8	<b>Leverage ratio exposure measure</b>	<b>7,219,154</b>	<b>9,676,930</b>

During 2022, the leverage ratio exposure measure decreased by approximately HK\$2.46bn, resulting in the increase of leverage ratio from 17.87% to 24.43 %. The decrease in exposure measure was mainly attributed by the decrease of bank placements and loans to customers during the year.

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31 December 2022

## 6. LEVERAGE RATIO (continued)

## (b) Leverage ratio

		HK\$'000 equivalent	
		As at 31 December 2022	As at 31 December 2021
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,404,124	8,689,880
2	Less: Asset amounts deducted in determining Tier 1 capital	(29,479)	(47,414)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>6,374,645</b>	<b>8,642,466</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,529	6,676
5	Add-on amounts for PFE associated with all derivative contracts	9,901	25,920
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	<b>Total exposures arising from derivative contracts</b>	<b>13,430</b>	<b>32,596</b>
<b>Exposures arising from SFTs</b>			
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	<b>Total exposures arising from SFTs</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	831,078	1,003,401
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	<b>Off-balance sheet items</b>	<b>831,078</b>	<b>1,003,401</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>1,763,757</b>	<b>1,736,650</b>
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>7,219,153</b>	<b>9,678,462</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>(1,406)</b>	<b>(1,532)</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>7,217,747</b>	<b>9,676,930</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>24.43%</b>	<b>17.95%</b>

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31 December 2022

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.

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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 2022
Liquidity Maintenance Ratio <sup>1</sup>	66.16%
Loan to Deposit Ratio <sup>2</sup>	67.03%
Wholesale Funding Dependency Ratio <sup>2</sup>	0.00%
FX Swap to Client Deposit Ratio	
- Local currency swap ratio (HKD) <sup>2</sup>	0%
- Foreign currency swap ratio (non-HKD) <sup>2</sup>	1.67%
Funding source concentration from intra-group companies	4.78%

<sup>1</sup> Q4 2022 average as submitted to HKMA

<sup>2</sup> 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 2022, the maturity mismatch ratio for major currencies are as followed:

Currency	Tenor - 1 week	Tenor - 1 month
HKD	34.07%	58.43%
USD	7.93%	7.90%
CNY	12.02%	11.99%

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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 2022 and 2021 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	Total HK\$'000
<b>31 December 2022</b>						
Cash and due from banks	2,448,792	-	-	-	-	2,448,792
Loans and advances to customers	2,939,424	11,729	-	-	-	2,951,153
Debt instruments at amortised cost	399,470	398,396	195,347	-	-	993,213
Financial assets included in other assets	-	-	-	-	64	64
<b>Total on-balance sheet assets</b>	<b>5,787,686</b>	<b>410,125</b>	<b>195,347</b>	<b>-</b>	<b>64</b>	<b>6,393,222</b>
Deposits from customers	3,778,246	195,976	302,062	-	-	4,276,284
Amounts due to an intermediate holding company	71,206	-	-	-	-	71,206
Financial liabilities included in other liabilities	206,747	-	4,870	2,657	-	214,274
<b>Total on-balance sheet liabilities</b>	<b>4,056,199</b>	<b>195,976</b>	<b>306,932</b>	<b>2,657</b>	<b>-</b>	<b>4,561,764</b>
<u>Derivative financial instruments</u>						
Off-balance sheet claims	611,368	17,259	59,333	-	-	
Off-balance sheet obligations	613,299	16,859	58,353	-	-	
<b>Maturity mismatch</b>	<b>1,729,556</b>	<b>214,549</b>	<b>(110,605)</b>	<b>(2,657)</b>	<b>64</b>	
<b>Cumulative maturity mismatch</b>	<b>1,729,556</b>	<b>1,944,105</b>	<b>1,833,500</b>	<b>1,830,843</b>	<b>1,830,907</b>	

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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	Total HK\$'000
<b>31 December 2021</b>						
Cash and due from banks	1,133,588	1,170,059	933,957	-	-	3,237,604
Loans and advances to customers	4,743,679	834	144	-	-	4,744,657
Debt instruments at amortised cost	399,999	299,976	-	-	-	699,975
Financial assets included in other assets	1	3	-	-	11	15
<b>Total on-balance sheet assets</b>	<b>6,277,267</b>	<b>1,470,872</b>	<b>934,101</b>	<b>-</b>	<b>11</b>	<b>8,682,251</b>
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
Financial liabilities included in other liabilities	5,516	-	30,534	1,855	5,523	43,425
<b>Total on-balance sheet liabilities</b>	<b>3,084,561</b>	<b>2,664,844</b>	<b>1,132,760</b>	<b>1,855</b>	<b>5,523</b>	<b>6,889,540</b>
<u>Derivative financial instruments</u>						
Off-balance sheet claims	723,463	576,403	102,025	-	-	
Off-balance sheet obligations	722,895	574,697	98,811	-	-	
<b>Maturity mismatch</b>	<b>3,193,274</b>	<b>(1,192,266)</b>	<b>(195,445)</b>	<b>(1,855)</b>	<b>(5,512)</b>	
<b>Cumulative maturity mismatch</b>	<b>3,193,274</b>	<b>2,001,008</b>	<b>1,805,563</b>	<b>1,803,708</b>	<b>1,798,196</b>	

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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 Department ("RMD") 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 at minimum.

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 credit risk.

Internal audit is 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.

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8. CREDIT RISK (continued)

(b) Credit quality of exposures

		As at 31 December 2022						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a) + (b) - (c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
HKS'000								
1	Loans	1,274	2,951,153	1,274	1,274	-	-	2,951,153
2	Debt securities	-	993,328	115	-	115	-	993,213
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	Total	1,274	3,944,481	1,389	1,274	115	-	3,944,366

		As at 31 December 2021						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a) + (b) - (c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
HKS'000								
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

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.



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8. CREDIT RISK (continued)

(c) Changes in defaulted loans and debt securities

	(HK\$'000)	Amount
1	<b>Defaulted loans and debt securities at end of the previous reporting period (31 December 2021)</b>	<b>1,273</b>
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	1
6	<b>Defaulted loans and debt securities at end of the current reporting period (31 December 2022)</b>	<b>1,274</b>

	(HK\$'000)	Amount
1	<b>Defaulted loans and debt securities at end of the previous reporting period (31 December 2020)</b>	<b>1,266</b>
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	<b>Defaulted loans and debt securities at end of the current reporting period (31 December 2021)</b>	<b>1,273</b>

(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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 2022 HK\$	As at 31 December 2021 HK\$
Hong Kong SAR	4,574,840,056	3,683,531,530
Macau SAR	-	1,870,076,062
Mainland China	1,037,773,801	1,871,806,862
Others	790,104,238	1,262,932,763
Total credit exposures	<u>6,402,718,095</u>	<u>8,688,347,217</u>

*Concentration of exposures by industry*

	As at 31 December 2022 HK\$	As at 31 December 2021 HK\$
Banks	2,448,791,772	3,237,604,476
Official sector	997,047,101	699,974,585
Non-bank private sector		
- Investment companies	425,614,984	722,241,400
- Individuals	2,525,537,883	4,022,416,025
- Others	5,726,355	6,110,731
Total credit exposures	<u>6,402,718,095</u>	<u>8,688,347,217</u>

*Exposures by residual maturity*

	As at 31 December 2022 HK\$	As at 31 December 2021 HK\$
Up to 1 month	5,787,686,636	6,277,266,514
Between 1-3 months	410,124,088	1,470,871,732
Between 3-12 months	199,181,016	934,101,903
Undated/ Indefinite	5,726,355	6,107,068
Total credit exposures	<u>6,402,718,095</u>	<u>8,688,347,217</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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 2022 HK\$	As at 31 December 2021 HK\$
Hong Kong SAR	1,273,665	1,273,452
Gross impaired exposures	1,273,665	1,273,452
Less: individual impairment allowance	(1,273,665)	(1,273,452)
Net exposures	-	-

*Impaired exposures and related allowances by industry*

	As at 31 December 2022 HK\$	As at 31 December 2021 HK\$
Individual	1,273,665	1,273,452
Gross impaired exposures	1,273,665	1,273,452
Less: individual impairment allowance	(1,273,665)	(1,273,452)
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.

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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 2022				
(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	786,383	2,164,770	1,476,272	-	-
2	Debt securities	993,213	-	-	-	-
3	<b>Total</b>	<b>1,779,596</b>	<b>2,164,770</b>	<b>1,476,272</b>	<b>-</b>	<b>-</b>
4	Of which defaulted	-	-	-	-	-

		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	<b>Total</b>	<b>1,643,499</b>	<b>3,801,134</b>	<b>2,587,046</b>	<b>-</b>	<b>-</b>
4	Of which defaulted	-	-	-	-	-

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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.

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8. CREDIT RISK (continued)

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

		As at 31 December 2022					
		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	797,911	-	797,911	-	-	0%
2	PSE exposures	195,416	-	195,416	-	39,083	20%
2a	Of which: domestic PSEs	195,416	-	195,416	-	39,083	20%
2b	Of which: foreign PSEs	-	-	-	-	-	20%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	2,448,810	204,665	2,448,810	1,604	490,083	40%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	418,550	1,565,392	244,771	10,621	255,392	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	210,769	1,110,163	79,266	-	59,450	75%
11	Residential mortgage loans	89,649	49,248	89,649	-	35,969	40%
12	Other exposures which are not past due exposures	2,241,745	6,069,265	1,070,755	-	1,070,755	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	<b>Total</b>	<b>6,402,850</b>		<b>4,926,578</b>		<b>1,950,732</b>	<b>40%</b>

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8. CREDIT RISK (continued)

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

	Exposure classes	As at 31 December 2021					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		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	<b>Total</b>	<b>8,688,607</b>		<b>6,101,560</b>		<b>3,356,891</b>	<b>55%</b>

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8. CREDIT RISK (continued)

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

(HK\$'000)		As at 31 December 2022										
Risk Weight	Exposure class											Total credit risk exposures amount (post CCF and post CRM)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	797,911	-	-	-	-	-	-	-	-	-	797,911
2	PSE exposures	-	-	195,416	-	-	-	-	-	-	-	195,416
2a	Of which: domestic PSEs	-	-	195,416	-	-	-	-	-	-	-	195,416
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,450,414	-	-	-	-	-	-	-	2,450,414
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	255,392	-	-	-	255,392
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	-	-	-	-	-	79,266	-	-	-	-	79,266
11	Residential mortgage loans	-	-	-	82,584	-	-	7,065	-	-	-	89,649
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1,070,755	-	-	-	1,070,755
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	<b>Total</b>	<b>797,911</b>	<b>-</b>	<b>2,645,830</b>	<b>82,584</b>	<b>-</b>	<b>79,266</b>	<b>1,333,212</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,938,803</b>



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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 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	<b>Total</b>	<b>699,993</b>	<b>-</b>	<b>1,133,590</b>	<b>115,989</b>	<b>2,104,255</b>	<b>41,139</b>	<b>2,006,594</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,101,560</b>

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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, Product Marketing Team and Treasury Department 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 hierarchy, 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.

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9. COUNTERPARTY CREDIT RISK (“CCR”) (continued)

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

		As at 31 December 2022					
		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)	2,520	6,212		1.4	12,225	10,942
1a	CEM	-	-		N/A	-	-
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	<b>Total</b>						<b>10,942</b>

		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)	4,769	17,931		1.4	31,780	23,161
1a	CEM	-	-		N/A	-	-
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	<b>Total</b>						<b>23,161</b>

The SA-CCR method is used for calculating default risk exposures of derivative contracts.

(c) CVA capital charge

		As at 31 December 2022		As at 31 December 2021	
(HK\$'000)		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	12,225	1,963	31,780	4,825
4	<b>Total</b>	<b>12,225</b>	<b>1,963</b>	<b>31,780</b>	<b>4,825</b>

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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 2022										
	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Exposure class												
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,604	-	-	-	-	-	-	-	1,604
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	10,621	-	-	-	10,621
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	<b>Total</b>	-	-	<b>1,604</b>	-	-	-	<b>10,621</b>	-	-	-	<b>12,225</b>

During 2022, total default risk exposure after CRM decreased by approximately HK\$20 million, which was attributed by the decrement in bank and corporate exposures.

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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 2021										
	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Exposure class												
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	<b>Total</b>	-	-	<b>10,774</b>	-	-	-	<b>21,006</b>	-	-	-	<b>31,780</b>

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9. COUNTERPARTY CREDIT RISK (“CCR”) (continued)

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

(HK\$'000)	As at 31 December 2022					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated	received	collateral
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

(HK\$'000)	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
	Segregated	Unsegregated	Segregated	Unsegregated	received	collateral
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

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.

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10. MARKET RISK (continued)

(b) Market risk under Standardized approach

(HK\$'000)		As at 31 December 2022 RWA	As at 31 December 2021 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	37,482	41,188
4	Commodity exposures	-	-
	Option exposures		
5	Simplified approach	-	-
6	Delta-plus approach	-	-
7	Other approach	-	-
8	Securitization exposures	-	-
9	<b>Total</b>	<b>37,482</b>	<b>41,188</b>

During 2022, 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.

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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 (“ $\Delta$ NII”), 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.



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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 rate 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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 2022 and 2021.

(In HK\$ million)		(a)	(b)	(c)	(d)
		$\Delta$ EVE		$\Delta$ NII	
	Period	As of 31 December 2022	As of 31 December 2021	As of 31 December 2022	As of 31 December 2021
1	Parallel up	6	11	(42)	(39)
2	Parallel down	1	1	42	39
3	Steepener	1	1		
4	Flattener	5	10		
5	Short rate up	7	13		
6	Short rate down	2	1		
7	Maximum	7	13	42	39
	Period	As of 31 December 2022		As of 31 December 2021	
8	Tier 1 capital	1,764		1,737	

12. OPERATIONAL RISK

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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 2022, 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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 29<sup>th</sup> July 2022, 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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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.

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13. REMUNERATION (continued)

(b) Remuneration awarded during the financial year

(HK\$)			2022	
	Remuneration amount and quantitative information		Senior management	Key personnel
1	Fixed	Number of employees	7	3
2	remuneration	Total fixed remuneration	7,882,095	4,697,520
3		Of which: cash-based	7,882,095	4,697,520
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	Number of employees	7	3
10	remuneration	Total variable remuneration	3,301,883	3,077,658
11		Of which: cash-based	3,301,883	3,077,658
12		Of which: deferred	1,324,055	1,234,141
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		11,183,978	7,775,178

(HK\$)			2021	
	Remuneration amount and quantitative information		Senior management	Key personnel
1	Fixed	Number of employees	9	3
2	remuneration	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	Number of employees	9	3
10	remuneration	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

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## 13. REMUNERATION (continued)

## (c) Special payments

(HK\$)		2022					
	Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	1	11,506	2	349,567	-	-
2	Key personnel	-	-	-	-	-	-

(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	-	-	-	-	-	-

There is no severance payment awarded and actually made to Senior Management and Key Personnel during 2022 (2021: Nil).

## (d) Deferred remuneration

(HK\$)		2022				
	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	1,319,778	-	-	-	3,198,689
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	1,458,784	-	-	-	2,687,332
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	2,778,562	-	-	-	5,886,021

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

13. REMUNERATION (continued)

(d) Deferred remuneration (continued)

(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	<b>Total</b>	<b>2,473,011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,865,232</b>

There is no amount of deferred remuneration reduced through performance adjustments for Senior Management and Key Personnel during 2022 (2021: 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 2022 (2021: Nil).



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 2022 and 2021 are as follows:

	2022 Private banking HK\$'000	2021 Private banking HK\$'000
Net interest income	88,653	98,037
Net fee and commission income	144,340	272,786
Net trading gains	(133)	3,047
Operating income	232,860	373,870
Operating expenses	(223,461)	(227,845)
Profit before impairment allowances	9,399	146,025
Net release/(charge) of impairment allowances	126	(78)
Profit before taxation	9,525	145,947
Segment assets	6,405,275	8,693,177
Segment liabilities	4,612,003	6,909,052

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

## 15. LOANS AND ADVANCES TO CUSTOMERS

## (i) Loans and advances to customers by industry sectors

At 31 December 2022	Gross advances HK\$'000	% covered by collateral or other security %	Classified or impaired loans HK\$'000	Overdue loans HK\$'000	Stage 1 impairment allowances HK\$'000	Stage 3 impairment allowances HK\$'000
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	2,526,812	100%	1,274	1,274	-	1,274
Financial concerns						
- Investment companies	425,615	100%	-	-	-	-
	<u>2,952,427</u>					
Loans for use outside Hong Kong	<u>-</u>					
	<u><u>2,952,427</u></u>					
At 31 December 2021	Gross advances HK\$'000	% covered by collateral or other security %	Classified or impaired loans HK\$'000	Overdue loans HK\$'000	Stage 1 impairment allowances HK\$'000	Stage 3 impairment allowances 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%	-	-	-	-
	<u>4,745,932</u>					
Loans for use outside Hong Kong	<u>-</u>	-				
	<u><u>4,745,932</u></u>					

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 2022	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	1,317,247	1,274	1,274	-	1,274
Mainland China	1,037,774	-	-	-	-
Others	597,406	-	-	-	-
	<u>2,952,427</u>	<u>1,274</u>	<u>1,274</u>	<u>-</u>	<u>1,274</u>
	<u><u>2,952,427</u></u>	<u><u>1,274</u></u>	<u><u>1,274</u></u>	<u><u>-</u></u>	<u><u>1,274</u></u>
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	-	-	-	-
	<u>4,745,932</u>	<u>1,273</u>	<u>1,273</u>	<u>1</u>	<u>1,273</u>
	<u><u>4,745,932</u></u>	<u><u>1,273</u></u>	<u><u>1,273</u></u>	<u><u>1</u></u>	<u><u>1,273</u></u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 2022			
Central government, central government-owned entities and their subsidiaries and joint ventures	-	2,490	2,490
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	978,144	-	978,144
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	108,540	-	108,540
	<u>1,086,684</u>	<u>2,490</u>	<u>1,089,174</u>
Total assets after provision	<u>6,405,275</u>		
On-balance sheet exposures as percentage of total assets	<u>16.97%</u>		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 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
	<u>1,871,967</u>	<u>3,779</u>	<u>1,875,746</u>
Total assets after provision	<u>8,693,177</u>		
On-balance sheet exposures as percentage of total assets	<u>21.53%</u>		

(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 2022 (2021: Nil).

(v) Repossessed assets

There were no repossessed assets as at 31 December 2022 (2021: Nil).

## BANK OF CHINA INTERNATIONAL LIMITED

## 中銀國際有限公司

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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## 16. CURRENCY CONCENTRATIONS

	USD HK\$'000	CNY HK\$'000	JPY HK\$'000	CAD HK\$'000	CHF HK\$'000	SGD HK\$'000	EUR HK\$'000	AUD HK\$000	GBP HK\$'000	Others HK\$'000	Total HK\$'000
2022											
Spot assets	1,514,504	86,409	79,019	7,180	13,941	9,286	112,626	29,792	52,652	4,516	1,909,925
Spot liabilities	(1,292,581)	(447,457)	-	(7,769)	-	(24,431)	(2)	(36,302)	(65,415)	(1,566)	(1,875,523)
Forward purchases	233,979	389,516	8,874	5,757	-	23,237	8,313	7,944	10,341	-	687,961
Forward sales	(453,353)	(28,094)	(76,911)	-	(5,457)	-	(124,695)	-	-	-	(688,510)
Net long/(short) position	2,549	374	10,982	5,168	8,484	8,092	(3,758)	1,434	(2,422)	2,950	33,853

	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

There were no net structural positions as at 31 December 2022 and 31 December 2021.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

## 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:

		<u>Non-bank private sector</u>			
	Banks	Official	Non-bank	Non-	
	HK\$ million	sector	financial	financial	Total
	HK\$ million	HK\$ million	institutions	private	HK\$ million
	HK\$ million	HK\$ million	HK\$ million	sector	HK\$ million
<u>At 31 December 2022</u>					
Developed countries	186	-	-	-	186
Offshore centres	914	-	-	812	1,726
Developing Latin America and Caribbean	-	-	-	12	12
Developing Africa and Middle East	-	-	-	16	16
Developing Asia and Pacific	-	-	-	1,135	1,135
<i>Of which: China</i>	-	-	-	1,038	1,038
	<u>1,100</u>	<u>-</u>	<u>-</u>	<u>1,975</u>	<u>3,075</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

17. INTERNATIONAL CLAIMS (continued)

		<u>Non-bank private sector</u>			
	Banks	Official	Non-bank	Non-	Total
	HK\$ million	sector	financial	financial	
		HK\$ million	institutions	private	HK\$ million
			HK\$ million	sector	
				HK\$ million	
<u>At 31 December 2021</u>					
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
<i>Of which: China</i>	<i>2,118</i>	<i>-</i>	<i>16</i>	<i>2,517</i>	<i>4,651</i>
	<u>2,722</u>	<u>-</u>	<u>131</u>	<u>3,305</u>	<u>6,158</u>

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 seven directors as of 31 December 2022.

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.



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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 (“AC”) consists of three members, two independent non-executive directors and one non-executive director. The AC is chaired by an independent non-executive director. The Audit Committee held four meetings for the year ended 31 December 2022.

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 non-executive director). Three meetings were held during the year ended 31 December 2022.

The principal objective of the RC is to provide independent oversight and guidance to the Board on risk issues in the areas of market, credit, operational, interest rate, liquidity, strategic, legal and compliance, 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

18. CORPORATE GOVERNANCE (continued)

**(c) Risk Committee (continued)**

The RC supervises the Company's overall risk culture in accordance with the risk appetite statement.

**(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 reviewing the remuneration system of the Company, identifying individuals suitably qualified to become director, senior management and key personnel of the Company. It also advises and assists the Board in discharging its responsibilities for the Company's culture-related matters. The NRC held three meetings and passed seven written resolutions during the year ended 31 December 2022.

**(e) Strategy and Budget Committee**

The Strategy and Budget Committee (the "SBC"), which is composed of three members, including the non-executive director (Chairman), one non-executive director and one independent non-executive director. The SBC convened one physical meeting and one meetings by written resolutions during the year ended 31 December 2022.

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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

18. CORPORATE GOVERNANCE (continued)

**(f) Executive Committee**

During the year, the Executive Committee (“EC”) was composed of the CE, Alternative Chief Executive, Deputy Chief Executive and Chief Risk Officer. After the reorganization of the composition from 7 December 2022, the EC is chaired and led by CE (“the Chairperson”), and is composed of the CE, Alternate Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief Operating Officer, Head of Sales, and the s72B managers who are responsible for AML, compliance, risk management, internal audit, finance, treasury and investment functions. 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”), Anti-Money Laundering Committee (the “AMLC”), 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 2022.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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;
- To act on other issues as directed by the EC and the Board; and
- To recommend the Chief Executive to activate the Recovery Plan upon the occurrence of liquidity and capital shortfall events.

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 seven members, one executive directors, three non-executive directors and three independent non-executive directors. All of them satisfied the requirements of HKMA of being a fit and proper person to occupy their positions as directors of the Company.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS

Role	Name	Information
<b>Chairman</b>	WANG Ying	Profile 1 (Appointed on 2 August 2022)
<b>Board Members</b>	WANG Zhongze	(Cessation with effect from 28 November 2022)
	QIAN Feng	(Cessation with effect from 16 November 2022)
	LAM Kwong Siu	Profile 2
	IP Sio Kai	Profile 3
	GUO Zhiqiang	Profile 4
<b>Independent Non-executive Director</b>	WONG Wai Kwan Anna	Profile 6
	NG Kim Lam	Profile 7
	SUEN Man Tak	Profile 8
<b>Chief Risk Officer</b>	XING Shanshan	Appointed on 20 May 2021
<b>Head of Internal Audit Division</b>	LI Yi Hong Ally	Appointed on 29 June 2018

The information about Board Members below is as of 31 December 2022.

**Profile 1 – WANG Ying**

Ms. WANG Ying, aged 44, is a Chairperson and Non-executive Director of the Company. She is currently Deputy Chief Executive Officer and a member of Executive Committee of BOC International Holdings Limited (“**BOCI Holdings**”).

Ms. Wang has more than 23 years' banking experience in China and Hong Kong, she processes extensive wealth management and private banking business management experience, and particularly strong in investment strategies and planning. Before joining BOCI Holdings in August 2020, Ms. Wang served as Head of Private Banking, Personal Digital Banking Department (Private Banking Center) of Bank of China Limited (“**BOC**”), Head of Investment Strategy and Services, Wealth Management and Private Banking Department of BOC, Head of Services and Operations, Wealth Management and Private Banking Department of Personal Banking Unit of BOC and Deputy General Manager of Private Banking of Bank of China (Hong Kong) Limited.

Ms. Wang holds the bachelor degree in Economics from Southwest University of Political Science & Law, master degrees in Finance and Wealth Management from University of International Business and Economics and master of Science in Wealth Management from Singapore Management University. She is a certified Financial Planner (CFP) and a certified Private Wealth Professional (CPWP).

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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

**Profile 2 – LAM Kwong Siu**

Mr. LAM Kwong Siu GBS and SBS, aged 88, 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 2022, 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.

**Profile 3 – IP Sio Kai**

Mr. IP Sio Kai, aged 62, 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 National Committee of the Chinese People's Political Consultative Conference, Member of the Chongqing Committee of the Chinese People's Political Consultative Conference, 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 4 – GUO Zhiqiang**

Mr. GUO Zhiqiang, aged 53, is an Executive Director and Chief Executive of the Company. Mr. GUO has more than 30 years of banking experience. Before joining the Company in 2021, Mr. GUO served as Vice President of Bank of China (Luxembourg) Limited Lisbon Branch, General Manager of Wealth Management Centre in Bank of China Singapore Branch, and Deputy General Manager of Personal Banking Department of Bank of China Shandong Branch.

Mr. GUO holds a Master degree in Business Administration from Tsinghua University School of Economics and Management.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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

**Profile 5 – WONG Wai Kwan Anna**

Ms. WONG Wai Kwan Anna, aged 63, 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.

**Profile 6 – 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.



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2022

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

**Profile 7 – SUEN Man Tak**

Mr. SUEN Man Tak, aged 64, 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".