

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 2023

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 2023.

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 2023 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 2023 (2022: 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:

Ip Sio Kai
Lam Kwong Siu
Ng Kim Lam
Suen Man Tak
Wong Wai Kwan Anna (resigned on 6 July 2023)
Guo Zhiqiang
Wang Ying
Wang Yan (appointed on 7 March 2023)
Wang Zeyu (appointed on 11 April 2023)
Liu Min (appointed on 4 July 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, 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 2023 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

24 APR 2024

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 61, comprise:

- the statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) 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.



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 unaudited supplementary financial information, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors 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.

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.



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 HKSA's, 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 directors 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, 24 April 2024

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

INCOME STATEMENT

Year ended 31 December 2023

In HK\$ thousands	Note	2023	2022
Interest income	4	265,649	129,014
Interest expense	4	(137,727)	(40,361)
Net interest income	4	127,922	88,653
Fee and commission income	5	85,434	144,442
Fee and commission expense	5	(161)	(101)
Net fee and commission income	5	85,273	144,341
Net trading gains/(losses)	6	3,712	(134)
Operating income		216,907	232,860
Operating expenses	8	(213,212)	(223,462)
Profit before impairment allowances		3,695	9,398
Net (charge)/release of impairment allowances	9	(353)	126
Profit before taxation		3,342	9,524
Income tax credit/(expense)	10	1,710	(377)
Profit for the year		5,052	9,147

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 2023

In HK\$ thousands	2023	2022
Profit for the year	<u>5,052</u>	<u>9,147</u>
Total comprehensive income for the year	<u>5,052</u>	<u>9,147</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

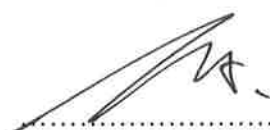
STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

In HK\$ thousands	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and due from banks	11	1,372,685	2,448,792
Derivative financial instruments	12	4,591	2,520
Loans and advances to customers	13	2,236,863	2,951,153
Debt instruments	14	2,595,698	993,213
Deferred tax assets	10	1,321	37
Tax recoverable		353	3,834
Other assets	15	4,695	5,726
Total assets		6,216,206	6,405,275
LIABILITIES			
Deposits from customers	16	4,298,416	4,276,284
Amounts due to an intermediate holding company	17	77,887	87,690
Derivative financial instruments	12	4,632	3,099
Other liabilities	18	36,947	244,930
Total liabilities		4,417,882	4,612,003
EQUITY			
Share capital	19	1,000,000	1,000,000
Retained earnings		798,324	793,272
		1,798,324	1,793,272
Total liabilities and equity		6,216,206	6,405,275

The financial statements on pages 6 to 61 were approved by the Board of Directors on and were signed on its behalf:

24 APR 2024



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 2023

In HK\$ thousands	Share capital	Retained earnings	Total
Balance at 1 January 2022	1,000,000	784,125	1,784,125
Profit for the year and total comprehensive income for the year	-	9,147	9,147
Balance at 31 December 2022 and 1 January 2023	1,000,000	793,272	1,793,272
Profit for the year and total comprehensive income for the year	-	5,052	5,052
Balance at 31 December 2023	1,000,000	798,324	1,798,324

† As at 31 December 2023, a regulatory reserve of HK\$22,337,000 (2022: HK\$29,478,000) 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 2023

In HK\$ thousands	2023	2022
Cash flows from operating activities		
Profit before taxation	3,342	9,524
Net charge/(release) of impairment allowances	353	(126)
(Increase)/decrease in balances and placements with banks with original maturity over three months	(101,191)	2,104,255
(Increase)/decrease in derivative financial instruments	(538)	3,429
Decrease in other assets	1,031	384
Decrease in loans and advances to customers	714,290	1,793,505
Increase in debt instruments	(1,602,815)	(97,918)
Increase/(decrease) in deposits from customers	22,132	(2,501,820)
(Decrease)/increase in amounts due to an intermediate holding company	(9,803)	19,680
(Decrease)/increase in other liabilities	(207,983)	6,085
Hong Kong profits refunded/(tax paid)	3,907	(21,779)
Net cash generated (used in)/from operating activities	<u>(1,177,275)</u>	<u>1,315,219</u>
Net (decrease)/increase in cash and cash equivalents	(1,177,275)	1,315,219
Cash and cash equivalents at beginning of year	<u>2,448,810</u>	<u>1,133,591</u>
Cash and cash equivalents at end of year	<u>1,271,535</u>	<u>2,448,810</u>
Analysis of balances of cash and cash equivalents:		
Cash and due from banks with original maturity within three months	<u>1,271,535</u>	<u>2,448,810</u>
Cash flows from operating activities included:		
- Interest received	177,082	119,038
- Interest paid	(113,001)	(36,009)

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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.

In 2022, the financial statements were presented in Hong Kong dollars (“HK\$”), unless otherwise stated. In 2023, to simplify the financial statements presentation, the financial statements are presented in HK\$ rounded to the nearest thousand, unless otherwise stated. The comparative figures in the financial statements have been re-presented to conform with current year’s presentation.

These financial statements have been approved for issue by the Board of Directors on **24 APR 2024**

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 MATERIAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention, as modified for the revaluation of financial assets 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 2023

2. SUMMARY OF MATERIAL 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 HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of accounting policies</i>
Amendments to HKAS 8	<i>Definition of accounting estimates</i>
Amendments to HKAS 12	<i>Deferred tax related to assets and liabilities arising from a single transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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 2023

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	<i>Disclosure of non current liabilities with covenants¹</i>
Amendments to HKFRS 16	<i>Lease liability in sales and leasback¹</i>
Amendments to HKAS 21	<i>Lack of Exchangeability²</i>

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

The above new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 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 2023

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (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 2023

2. SUMMARY OF MATERIAL 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

Classification and subsequent measurement of financial assets depend on:

- (i) the Company’s business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Company classified its financial assets 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.

- **FVPL**

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

2. SUMMARY OF MATERIAL 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 2023

2. SUMMARY OF MATERIAL 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, 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 2023

2. SUMMARY OF MATERIAL 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 2023

2. SUMMARY OF MATERIAL 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 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 2023

2. SUMMARY OF MATERIAL 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.

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 2023

2. SUMMARY OF MATERIAL 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 2023

2. SUMMARY OF MATERIAL 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 2023

2. SUMMARY OF MATERIAL 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 2023

2. SUMMARY OF MATERIAL 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, including any other risks which are transmitted into the aforementioned risk types. The Company establishes the risk management system commensurate with the business strategy, scale and complexity. 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 2023

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 chaired and led by CE (“the Chairperson”) and is composed of the CE, Alternative Chief Executives, Deputy Chief Executives, Head of Sales, and the s72B managers under the Banking Ordinance 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 the unaudited supplementary information.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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 2023

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.

In HK\$ thousands	Less than 1 month	Between 1 to 3 months	Between 3 months to 1 year	Non-interest bearing	Total
31 December 2023					
Cash and due from banks	1,052,052	218,813	-	101,820	1,372,685
Derivative financial instruments	-	-	-	4,591	4,591
Loans and advances to customers	2,158,847	74,872	-	3,144	2,236,863
Debt instruments	326,999	545,744	1,722,955	-	2,595,698
Total assets	3,537,898	839,429	1,722,955	109,555	6,209,837
Deposits from customers	1,963,828	1,565,580	738,929	30,079	4,298,416
Amounts due to an intermediate holding company	-	-	-	56,508	56,508
Derivative financial instruments	-	-	-	4,632	4,632
Financial liabilities included in other liabilities	-	-	-	11,568	11,568
Total liabilities	1,963,828	1,565,580	738,929	102,787	4,371,124
Total interest repricing gap	1,574,070	(726,151)	984,026		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Interest rate risk (continued)

In HK\$ thousands	Less than 1 month	Between 1 to 3 months	Between 3 months to 1 year	Non-interest bearing	Total
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 ^(note)	2,936,147	11,718	-	3,288	2,951,153
Debt instruments	399,471	398,396	195,346	-	993,213
Financial assets included in other assets	-	-	-	64	64
Total assets	5,012,049	410,114	195,346	778,233	6,395,742
Deposits from customers ^(note)	3,774,146	195,107	301,677	5,354	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 ^(note)	-	-	-	205,809	205,809
Total liabilities	3,774,146	195,107	301,677	285,468	4,556,398
Total interest repricing gap	1,237,903	215,007	(106,331)		

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

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\$12,724,000 (2022: HK\$13,256,000).

3.1.2 Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency rates fluctuations. The Company may use foreign exchange derivatives to manage its own net foreign exchange positions.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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.

In HK\$ thousands	HKD	USD	CNY	Others	Total
31 December 2023					
Spot assets	4,750,147	1,281,190	44,048	134,452	6,209,837
Spot liabilities	1,864,873	1,955,172	454,077	103,452	4,377,574
Net on-balance sheet position	<u>2,885,274</u>	<u>(673,982)</u>	<u>(410,029)</u>	<u>31,000</u>	<u>1,832,263</u>
Off-balance sheet net notional position	<u>(1,171,623)</u>	<u>735,440</u>	<u>407,221</u>	<u>28,190</u>	<u>(772)</u>
In HK\$ thousands	HKD	USD	CNY	Others	Total
31 December 2022					
Spot assets	4,489,177	1,509,600	86,527	310,438	6,395,742
Spot liabilities	2,688,701	1,292,738	447,772	135,652	4,564,863
Net on-balance sheet position	<u>1,800,476</u>	<u>216,862</u>	<u>(361,245)</u>	<u>174,786</u>	<u>1,830,879</u>
Off-balance sheet net notional position	<u>-</u>	<u>(219,375)</u>	<u>361,422</u>	<u>(142,598)</u>	<u>(551)</u>

Since HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and no sensitivity analysis has been prepared.

At 31 December 2023, 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\$28,000 lower/higher (2022: HK\$2,000 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 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Foreign exchange risk (continued)

At 31 December 2023, if HKD had weakened/strengthened by 1% against other currencies with all other variables held constant, the profit before taxation for the year would have been approximately HK\$592,000 higher/lower (2022: HK\$322,000 lower/higher), mainly as a result of foreign exchange differences on translation of other currencies denominated financial assets compensated by foreign exchange differences on translation of other currencies 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 as well as cash and bank balances. 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 procedures 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 2023 and 2022, there was one impaired loan which had been fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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:

In HK\$ thousands	2023			2022		
	Pass	Special mention	Total	Pass	Special mention	Total
Loans and advances to customers	2,236,863	-	2,236,863	2,951,153	-	2,951,153

(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 2023 (2022: Nil).

(c) Impaired loans and advances to customers

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

In HK\$ thousands	2023	2022
Gross classified or impaired loans and advances to customers which have been overdue for: - over one year	1,276	1,274
Gross classified or impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.06%	0.04%
Impairment allowances under individual assessment made in respect of such loans and advances to customers	1,276	1,274
Current market value of collateral held against the covered portion of such loans and advances to customers	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

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

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

3.2.2 Derivative financial instruments

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

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

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the Company’s market transactions on any single day.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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.

In HK\$ thousands	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	

31 December 2023

Financial assets

Derivative financial instruments	181	-	181	(181)	-	-
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In HK\$ thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	

31 December 2023

Financial liabilities

Amounts due to an intermediate holding company	56,508	-	56,508	-	-	56,508
Derivative financial instruments	3,845	-	3,845	(181)	-	3,664

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

In HK\$ thousands	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
					Financial instruments	Cash collateral received	

31 December 2022

Financial assets

Derivative financial instruments	30	-	30	(30)	-	-
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In HK\$ thousands	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
					Financial instruments	Cash collateral pledged	

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 2023

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, offsetting payments on intragroup transactions have been made by the Company.

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 2023

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.
- Debt instruments at amortised cost refer to debt securities primarily issued by governments, government agencies and banks. The debt securities are of good credit quality and serve as a source of liquefiable assets for the Company. No debt instruments 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 2023

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 table 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 2023

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 2023

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 the 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 2023

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 2023

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.

In HK\$ thousands	On demand and up to 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Undated/ Indefinite/ Overdue	Total
31 December 2023						
Cash and due from banks	1,153,872	218,813	-	-	-	1,372,685
Derivative financial instruments	1,168	2,579	844	-	-	4,591
Loans and advances to customers	2,161,853	75,010	-	-	-	2,236,863
Debt instruments	326,999	545,744	1,722,955	-	-	2,595,698
Total assets	3,643,892	842,146	1,723,799	-	-	6,209,837
Deposits from customers	1,973,385	1,574,026	751,005	-	-	4,298,416
Amounts due to an intermediate holding company	56,508	-	-	-	-	56,508
Derivative financial instruments	4,630	-	2	-	-	4,632
Other liabilities	11,275	155	138	-	-	11,568
Total liabilities	2,045,798	1,574,181	751,145	-	-	4,371,124
Net liquidity gap	1,598,094	(732,035)	972,654	-	-	1,838,713

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

In HK\$ thousands	On demand and up to 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Undated/ Indefinite/ Overdue	Total
31 December 2022						
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	399,470	398,396	195,347	-	-	993,213
Other assets	-	-	-	-	64	64
Total assets	5,788,705	410,593	196,380	-	64	6,395,742
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 ^(Note)	205,450	-	359	-	-	205,809
Total liabilities	4,057,832	196,024	302,542	-	-	4,556,398
Net liquidity gap	1,730,873	214,569	(106,162)	-	64	1,839,344

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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.

In HK\$ thousands	On demand/ Up to 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Undated/ Indefinite/ Overdue	Total
31 December 2023						
Non-derivative cash outflow liabilities						
Deposits from customers	1,975,107	1,587,094	769,232	-	-	4,331,433
Amounts due to an intermediate holding company	56,508	-	-	-	-	56,508
Other liabilities	11,275	155	138	-	-	11,568
Total	<u>2,042,890</u>	<u>1,587,249</u>	<u>769,370</u>	<u>-</u>	<u>-</u>	<u>4,399,509</u>
Derivative financial instruments cash flow						
Settled on a gross basis						
Total inflow	1,671,096	149,910	39,396	-	-	1,860,402
Total outflow	(1,674,546)	(147,835)	(38,793)	-	-	(1,861,174)
	<u>(3,450)</u>	<u>2,075</u>	<u>603</u>	<u>-</u>	<u>-</u>	<u>(772)</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

In HK\$ thousands	On demand/ Up to 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Undated/ Indefinite/ Overdue	Total
31 December 2022						
Non-derivative cash outflow liabilities						
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 ^(noted)	205,450	-	359	-	-	205,809
Total	<u>4,057,342</u>	<u>196,505</u>	<u>307,298</u>	<u>-</u>	<u>-</u>	<u>4,561,145</u>
Derivative financial instruments cash flow						
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>

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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:

In HK\$ thousands	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
At 31 December 2023			
<u>Financial assets</u>			
Cash and due from banks	-	1,372,685	1,372,685
Derivative financial instruments	4,591	-	4,591
Loans and advances to customers	-	2,236,863	2,236,863
Debt instruments	-	2,595,698	2,595,698
	<u>4,591</u>	<u>6,205,246</u>	<u>6,209,837</u>
Total financial assets	<u>4,591</u>	<u>6,205,246</u>	<u>6,209,837</u>

In HK\$ thousands	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
<u>Financial liabilities</u>			
Deposits from customers	-	4,298,416	4,298,416
Amounts due to an intermediate holding company	-	56,508	56,508
Derivative financial instruments	4,632	-	4,632
Other liabilities	-	11,568	11,568
	<u>4,632</u>	<u>4,366,492</u>	<u>4,371,124</u>
Total financial liabilities	<u>4,632</u>	<u>4,366,492</u>	<u>4,371,124</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

In HK\$ thousands	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
At 31 December 2022			
<u>Financial assets</u>			
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	-	993,213	993,213
Other assets	-	64	64
	<u>2,520</u>	<u>6,393,222</u>	<u>6,395,742</u>

In HK\$ thousands	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
<u>Financial liabilities</u>			
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 ^(Note)	-	205,809	205,809
	<u>3,099</u>	<u>4,553,299</u>	<u>4,556,398</u>

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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 2023 and 2022, 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 2023

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

4. NET INTEREST INCOME

In HK\$ thousands	2023	2022
Interest income		
- loans and advances to customers	129,555	91,757
- due from banks and other financial institutions	55,033	28,665
- debt instruments	81,061	8,592
	265,649	129,014
Interest expense		
- deposits from customers	(137,363)	(40,356)
- deposits and balances from banks	(364)	(5)
	(137,727)	(40,361)
Net interest income	127,922	88,653

5. NET FEE AND COMMISSION INCOME

In HK\$ thousands	2023	2022
Investment services fees received from fellow subsidiaries (note 21)	85,414	144,412
Others	20	30
Fee and commission income	85,434	144,442
Less: fee and commission expense	(161)	(101)
Net fee and commission income	85,273	144,341

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

6. NET TRADING GAINS/(LOSSES)

In HK\$ thousands	2023	2022
Foreign exchange	3,712	(134)

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\$10,603,000 (2022: HK\$12,219,000) of which HK\$3,115,000 (2022: HK\$3,024,000) was paid by the Company. The remaining HK\$7,488,000 (2022: HK\$9,195,000) 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 (2022: Nil) and retirement benefits (2022: Nil) granted in 2023.

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 (2022: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

8. OPERATING EXPENSES

In HK\$ thousands	2023	2022
Management fee expense (note 21)	95,920	90,866
Staff costs	97,184	115,931
Auditor's remuneration	388	338
Operating lease expenses	1,649	1,468
Information technology and communications expenses	8,319	8,130
Miscellaneous expenses	9,752	6,729
	<u>213,212</u>	<u>223,462</u>

9. NET (CHARGE)/RELEASE OF IMPAIRMENT ALLOWANCES

In HK\$ thousands		2023			
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and due from banks	11	(23)	-	-	(23)
Debt instruments	14	(330)	-	-	(330)
Net impairment charge		<u>(353)</u>	<u>-</u>	<u>-</u>	<u>(353)</u>
		2022			
In HK\$ thousands	Notes	Stage 1	Stage 2	Stage 3	Total
Cash and due from banks	11	223	-	-	223
Debt instruments	14	(97)	-	-	(97)
Net impairment release		<u>126</u>	<u>-</u>	<u>-</u>	<u>126</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the income statement represents:

In HK\$ thousands	2023	2022
Current income tax:		
- Hong Kong profits tax	-	353
- Over-provision in prior years	(343)	-
Deferred tax (credit)/charge	(1,367)	24
	(1,710)	377
	(1,710)	377

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:

In HK\$ thousands	2023	2022
Profit before taxation	3,342	9,524
	3,342	9,524
Tax calculated at statutory tax rate at 16.5% (2022: 16.5%)	551	1,571
Over-provision in prior years	(343)	-
Income not subject to tax	(3,175)	(1,418)
Expenses not deductible for tax	1,257	224
	(1,710)	377
	(1,710)	377

As at 31 December 2023, deferred tax assets of HK\$1,321,000 have been recognised in respect of temporary differences arising from fixed assets, impairment allowances and tax losses (31 December 2022: HK\$37,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

11. CASH AND DUE FROM BANKS

In HK\$ thousands	31 December 2023	31 December 2022
Cash and due from banks	167,851	1,300,680
Placements with banks remaining maturity less than one month	986,048	1,148,130
Placements with banks remaining maturity over one month	218,827	-
Less: allowance for impairment losses – Stage 1	(41)	(18)
	<u>1,372,685</u>	<u>2,448,792</u>

Included in the balance, there were accrued interest receivable of HK\$9,948,000 as at 31 December 2023 (31 December 2022: HK\$2,297,000).

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

In HK\$ thousands	2023	2022
Beginning of year - Stage 1	18	241
Net charge/(release) during the year - Stage 1	23	(223)
At 31 December	<u>41</u>	<u>18</u>

There were no overdue or impaired cash and due from banks as at 31 December 2023 (2022: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

12. DERIVATIVE FINANCIAL INSTRUMENTS

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

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:

In HK\$ thousands	Notional amount	Fair value assets	Fair value liabilities
31 December 2023			
Derivatives			
- Foreign exchange forward and swap	1,860,403	4,591	4,632
		<u>4,591</u>	<u>4,632</u>
		<u><u>4,591</u></u>	<u><u>4,632</u></u>
31 December 2022			
Derivatives			
- Foreign exchange forward and swap	687,960	2,520	3,099
		<u>2,520</u>	<u>3,099</u>
		<u><u>2,520</u></u>	<u><u>3,099</u></u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

13. LOANS AND ADVANCES TO CUSTOMERS

In HK\$ thousands	31 December 2023	31 December 2022
Loans and advances to customers:		
- individuals	1,956,786	2,526,812
- corporates	281,353	425,615
	<u>2,238,139</u>	<u>2,952,427</u>
Less: allowance for impairment losses	(1,276)	(1,274)
	<u>2,236,863</u>	<u>2,951,153</u>
Total	<u><u>2,236,863</u></u>	<u><u>2,951,153</u></u>

The carrying amounts of loans and advances to customers approximated their fair value. Included in the balance accrued interest receivable of HK\$3,144,000 (31 December 2022: HK\$3,288,000).

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

In HK\$ thousands	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	-	-	1,274	1,274
Net charge/(release) during the year	-	-	-	-
Exchange difference	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2022 and 1 January 2023	-	-	1,274	1,274
Net charge/(release) during the year	-	-	-	-
Exchange difference	-	-	2	2
	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
At 31 December 2023	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,276</u></u>	<u><u>1,276</u></u>

As at 31 December 2023, loans and advances to customers classified under stage 1 and stage 3 amounted to HK\$2,236,863,000 and HK\$1,276,000 (2022: HK\$2,951,153,000 and HK\$1,274,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

14. DEBT INSTRUMENTS

In HK\$ thousands	31 December 2023	31 December 2022
<u>Debt instruments</u>		
Hong Kong Exchange Fund Bills, unlisted	447,484	797,911
Other debt securities, unlisted	2,148,659	195,417
Less: allowance for impairment loss – Stage 1	(445)	(115)
	<u>2,595,698</u>	<u>993,213</u>
Analysed by type of issuers as follows:		
Sovereign	447,466	797,866
Public sector entity	1,150,742	195,347
Banks	997,490	-
	<u>2,595,698</u>	<u>993,213</u>
Analysed by issue specific credit rating as follows:		
AA+ to AA-	1,598,208	993,213
A+ to A-	997,490	-
	<u>2,595,698</u>	<u>993,213</u>

Balances include accrued interest receivable of HK\$37,894,000 (31 December 2022: Nil).

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

In HK\$ thousands	2023	2022
Beginning of year – Stage 1	115	18
Net charge during the year – Stage 1	330	97
At 31 December	<u>445</u>	<u>115</u>

There were no overdue debt instruments as at 31 December 2023 (31 December 2022: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

15. OTHER ASSETS

In HK\$ thousands	31 December 2023	31 December 2022
Prepayments and other receivables	4,695	5,726
Less: allowance for impairment losses – Stage 1	-	-
	<u>4,695</u>	<u>5,726</u>

As at 31 December 2023, the balances included prepaid expenses of HK\$4,434,000 (2022: HK\$5,662,000).

There was no provision for impairment against other assets as at 31 December 2023 (31 December 2022: Nil).

16. DEPOSITS FROM CUSTOMERS

In HK\$ thousands	31 December 2023	31 December 2022
Time and call deposits:		
- Individuals	454,326	429,077
- Corporates	3,844,090	3,847,207
	<u>4,298,416</u>	<u>4,276,284</u>

Balance includes accrued interest payable of HK\$30,080,000 (31 December 2022: HK\$5,354,000).

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 2023

18. OTHER LIABILITIES

In HK\$ thousands	2023	2022
Payable on pending trade settlement	-	195,417
Others ^(note)	36,947	49,513
	<u>36,947</u>	<u>244,930</u>

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

19. SHARE CAPITAL

In HK\$ thousands	31 December 2023	31 December 2022
Issued and fully paid:		
1,000,000 (31 December 2022: 1,000,000) ordinary shares	<u>1,000,000</u>	<u>1,000,000</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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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**

In HK\$ thousands	Notes	BOC International Holdings Limited and its subsidiaries	Bank of China Limited and its subsidiaries
2023			
<u>Income statement</u>			
Interest income	i	-	8,924
Interest expense	ii	(133,219)	(364)
Fees and commission income	iii	85,414	-
Management fee expense	iv	(95,920)	-
Operating lease expense	vii	(1,624)	-
Miscellaneous expense	viii	-	(377)
		=====	=====
2022			
<u>Income statement</u>			
Interest income	i	5,589	13,491
Interest expense	ii	(35,298)	(5)
Fees and commission income	iii	144,412	-
Management fee expense	iv	(90,866)	-
Operating lease expense	vii	(1,419)	-
Miscellaneous expense	viii	-	(2,264)
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

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)**

In HK\$ thousands	Notes	BOC International Holdings Limited and its subsidiaries	Bank of China Limited and its subsidiaries
2023			
<u>Statement of financial position</u>			
Cash and due from banks	i	-	158,111
Derivative financial instruments	v	4,410	181
		<u> </u>	<u> </u>
Deposits from customers	ii	3,661,846	2,173
Derivative financial instruments	v	788	3,845
		<u> </u>	<u> </u>
2022			
<u>Statement of financial position</u>			
Cash and due from banks	i	-	1,289,306
Derivative financial instruments	v	2,490	30
		<u> </u>	<u> </u>
Deposits from customers ^(Note)	ii	3,723,944	2,143
Derivative financial instruments	v	483	2,616
		<u> </u>	<u> </u>

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

(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 2023

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, balances from banks and foreign exchange swap contracts

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.

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.

- (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\$95,920,000 (2022: HK\$90,866,000) was paid/payable to the intermediate holding company by the Company. In relation to the same agreement, HK\$21,380,000 (2022: HK\$13,262,000) was paid/payable 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.
- (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 2023

22. COMMITMENTS

As at 31 December 2023, the Company has no irrevocable loan commitment (2022: Nil) and no forward deposits placed (2022: 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. 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. Refer to note 3.2.6 for details.

(b) **Fair value of derivatives and other financial instruments**

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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

		31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
	Regulatory capital (amount)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Common Equity Tier 1 (CET1)	1,774,666	1,772,308	1,767,269	1,767,559	1,763,757
2	Tier 1	1,774,666	1,772,308	1,767,269	1,767,559	1,763,757
3	Total capital	1,797,489	1,796,715	1,791,026	1,789,105	1,788,109
	RWA (amount)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
4	Total RWA	2,604,611	2,645,734	2,478,918	2,320,703	2,553,756
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	68.14%	66.99%	71.29%	76.16%	69.07%
6	Tier 1 ratio (%)	68.14%	66.99%	71.29%	76.16%	69.07%
7	Total capital ratio (%) ¹	69.01%	67.91%	72.25%	77.09%	70.02%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%) ²	0.475%	0.491%	0.533%	0.538%	0.496%
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 (%)	2.975%	2.991%	3.033%	3.038%	2.996%
12	CET1 available after meeting the AI's minimum capital requirements (%)	57.76%	56.66%	61.00%	65.84%	62.62%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (HK\$'000)	6,914,696	7,121,687	6,691,136	6,300,659	7,217,747
14	LR (%)	25.67%	24.89%	26.41%	28.05%	24.43%

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

1. KEY PRUDENTIAL RATIOS (continued)

		31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	182.90%	135.93%	87.76%	70.20%	62.17%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

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

- Total capital ratio adjusted for unrealised loss for debt securities at amortised cost was 68.85% at 31 December 2023 (31 December 2022: 70.05%).
- The applicable jurisdictional countercyclical capital buffer (CCyB) ratio for Hong Kong used in the calculation of CCyB buffer requirement was 1.0% for 1Q 2023 to 4Q 2023.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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, including any other risks which are transmitted into the aforementioned risk types. The Company establishes the risk management system commensurate with the business strategy, scale and complexity. 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 providing assurance on the effectiveness of the Company’s risk management framework including the risk governance arrangements of the first and second lines of defence.

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 and 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 mainly 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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

formulating the business strategy, defining the risk attitude and formulating the recovery plan of the Company.

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

(b) Overview of RWA

(In HK\$ thousands)		RWA		Minimum capital requirements
		As at 31 December 2023	As at 30 September 2023	As at 31 December 2023
1	Credit risk for non-securitization exposures	1,993,898	2,051,589	224,314
2	Of which STC approach	1,993,898	2,051,589	224,314
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	26,737	21,844	3,008
7	Of which SA-CCR	26,737	21,844	3,008
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	5,050	4,325	568
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	64,063	39,188	7,207
21	Of which STM approach	64,063	39,188	7,207
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	514,863	528,788	57,922
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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

(b) Overview of RWA (continued)

		RWA		Minimum capital requirements
		As at 31 December 2023	As at 30 September 2023	As at 31 December 2023
(In HK\$ thousands)				
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	Total	2,604,611	2,645,734	293,019
N/A: Not applicable				

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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 2023.

		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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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

(In HK\$ thousands)	As of 31 December 2023						
	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	
Assets							
Cash and due from banks	1,372,685	1,372,685	1,372,685	-	-	-	-
Derivative financial instruments	4,591	4,591	-	4,591	-	4,591	-
Loans and advances to customers	2,236,863	2,236,863	2,236,863	-	-	-	-
Debt instruments	2,595,698	2,595,698	2,595,698	-	-	-	-
Deferred tax assets	1,321	1,321	-	-	-	-	1,321
Tax recoverable	353	353	-	-	-	-	-
Other assets	4,695	4,695	4,695	-	-	-	-
Total assets	6,216,206	6,216,206	6,209,941	4,591	-	4,591	1,321
Liabilities							
Deposits from customers	4,298,416	4,298,416	-	-	-	-	4,298,416
Amounts due to an intermediate holding company	77,887	77,887	-	-	-	-	77,887
Derivative financial instruments	4,632	4,632	-	-	-	4,632	-
Other liabilities	36,947	36,947	-	-	-	-	36,947
Total liabilities	4,417,882	4,417,882	-	-	-	4,632	4,413,250

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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)

(In HK\$ thousands)	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	
Assets							
Cash and due from banks	2,448,792	2,448,792	2,448,792	-	-	-	-
Derivative financial instruments	2,520	2,520	-	2,520	-	2,520	-
Loans and advances to customers	2,951,153	2,951,153	2,951,153	-	-	-	-
Debt instruments	993,213	993,213	993,213	-	-	-	-
Deferred tax assets	37	37	-	-	-	-	37
Tax recoverable	3,834	3,834	3,834	-	-	-	-
Other assets	5,726	5,726	5,726	-	-	-	-
Total assets	6,405,275	6,405,275	6,402,718	2,520	-	2,520	37
Liabilities							
Deposits from customers	4,276,284	4,276,284	-	-	-	-	4,276,284
Amounts due to an intermediate holding company	87,690	87,690	-	-	-	-	87,690
Derivative financial instruments	3,099	3,099	-	-	-	3,099	-
Tax payable	-	-	-	-	-	-	-
Other liabilities	244,930	244,930	-	-	-	-	244,930
Total liabilities	4,612,003	4,612,003	-	-	-	3,099	4,608,904

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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

(In HK\$ thousands)		As of 31 December 2023				
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value under scope of regulatory consolidation	6,216,206	6,211,615	-	4,591	4,591
2	Liabilities carrying value under regulatory scope of consolidation	(4,632)	-	-	-	(4,632)
3	Total net amount under regulatory scope of consolidation	6,211,574	6,211,615	-	4,591	(41)
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	16,265	-	-	16,265	-
6	Differences due to credit risk mitigation	(1,230,622)	(1,230,622)	-	-	-
7	Differences due to consideration of provisions	486	486	-	-	-
8	Exposure amounts considered for regulatory purposes	4,997,703	4,987,479	-	20,856	(41)

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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)

(In HK\$ thousands)		As of 31 December 2022				
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value under scope of regulatory consolidation	6,405,275	6,402,755	-	2,520	2,520
2	Liabilities carrying value under regulatory scope of consolidation	(3,099)	-	-	-	(3,099)
3	Total net amount under regulatory scope of consolidation	6,402,176	6,402,755	-	2,520	(579)
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	6,880	-	-	6,880	-
6	Differences due to credit risk mitigation	(1,476,310)	(1,476,310)	-	-	-
7	Differences due to consideration of provisions	133	133	-	-	-
8	Exposure amounts considered for regulatory purposes	4,932,879	4,926,578	-	9,400	(579)

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 2023

4. COMPOSITION OF CAPITAL

(a) Composition of regulatory capital

At 31 December 2023		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	775,987	(2)
3	Disclosed reserves	22,337	(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	CET1 capital before regulatory deductions	1,798,324	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	1,321	(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 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2023		Amount (In HK\$ thousands)	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	22,337	(3)
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	22,337	(3)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	23,658	
29	CET1 capital	1,774,666	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2023			
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<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	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	1,774,666	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2023			
Tier 2 capital: instruments and provisions			
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	22,823	
51	Tier 2 capital before regulatory deductions	22,823	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2023			
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	22,823	
59	Total regulatory capital (TC = T1 + T2)	1,797,489	
60	Total RWA	2,604,611	
CET1 capital ratio			
61	CET1 capital ratio	68.14	
62	Tier 1 capital ratio	68.14	
63	Total capital ratio	69.01	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	2.975	
65	of which: capital conservation buffer requirement	2.5	
66	of which: bank specific countercyclical capital buffer requirement	0.475	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	57.76	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2023			
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	22,823	
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	25,258	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	<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 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	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	CET1 capital before regulatory deductions	1,793,272	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	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 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

At 31 December 2022		Amount (In HK\$ thousands)	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	(3)
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	Total regulatory deductions to CET1 capital	29,515	
29	CET1 capital	1,763,757	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2022			
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<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	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	1,763,757	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2022			
Tier 2 capital: instruments and provisions			
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	Tier 2 capital before regulatory deductions	24,351	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2022			
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	24,351	
59	Total regulatory capital (TC = T1 + T2)	1,788,109	
60	Total RWA	2,553,756	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	69.07	
62	Tier 1 capital ratio	69.07	
63	Total capital ratio	70.02	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.00	
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	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	58.77	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

		Amount (In HK\$ thousands)	Cross reference to balance sheet under the regulatory scope of consolidation
At 31 December 2022			
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	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	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
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

BANK OF CHINA INTERNATIONAL LIMITED
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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet

In HK\$ thousands	Balance sheet as in published financial statements At 31 December 2023	Under regulatory scope of consolidation At 31 December 2023	Reference
ASSETS			
Cash and due from banks	1,372,685	1,372,685	
Derivative financial instruments	4,591	4,591	
Loans and advances to customers	2,236,863	2,236,863	
Debt instruments at amortised cost	2,595,698	2,595,698	
Deferred tax assets	1,321	1,321	(4)
Tax recoverable	353	353	
Other assets	4,695	4,695	
Total assets	6,216,206	6,216,206	
LIABILITIES			
Deposits from customers	4,298,416	4,298,416	
Amount due to an intermediate holding company	77,887	77,887	
Derivative financial instruments	4,632	4,632	
Other liabilities	36,947	36,947	
Total liabilities	4,417,882	4,417,882	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000	1,000,000	(1)
Reserves	798,324	798,324	
<i>Of which: Retained earnings (including current period profit or loss)</i>		775,987	(2)
<i>Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital</i>		22,337	(3)
Total equity	1,798,324	1,798,324	
Total liabilities and equity	6,216,206	6,216,206	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

4. COMPOSITION OF CAPITAL (continued)

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

In HK\$ thousands	Balance sheet as in published financial statements At 31 December 2022	Under regulatory scope of consolidation At 31 December 2022	Reference
ASSETS			
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	
Deferred tax assets	37	37	(4)
Tax recoverable	3,834	3,834	
Other assets	5,726	5,726	
Total assets	6,405,275	6,405,275	
LIABILITIES			
Deposits from customers	4,276,284	4,276,284	
Amount due to an intermediate holding company	87,690	87,690	
Derivative financial instruments	3,099	3,099	
Other liabilities	244,930	244,930	
Total liabilities	4,612,003	4,612,003	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000	1,000,000	(1)
Reserves	793,272	793,272	
<i>Of which: Retained earnings (including current period profit or loss)</i>		763,794	(2)
<i>Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital</i>		29,478	(3)
Total equity	1,793,272	1,793,272	
Total liabilities and equity	6,405,275	6,405,275	

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4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments

Ordinary Shares as at 31 December 2023 and 31 December 2022

1	Issuer	Bank of China International Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	0390704D HK Equity
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules ¹	Common Equity Tier 1
5	Post-transitional Basel III rules ²	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,000 million as at 31 December 2023 and 31 December 2022
9	Par value of instrument	N/A
10	Accounting classification	Share capital
11	Original date of issuance	a) 2 ordinary shares issued on 2 March 1979 b) 49,998 ordinary shares issued on 2 April 1979 c) 50,000 ordinary shares issued on 3 February 1989 d) 315,000 ordinary shares issued on 7 April 2009 e) 585,000 ordinary shares issued on 1 November 2011
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A

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

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

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4. COMPOSITION OF CAPITAL (continued)

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

Ordinary Shares as at 31 December 2023 and 31 December 2022 (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/>

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5. MACROPRUDENTIAL SUPERVISORY MEASURES

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

At 31 December 2023

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		(%)	(HK\$'000)	(%)	(HK\$'000)
1	Hong Kong SAR	1.000%	468,189		
2	Sum		468,189		
3	Total		986,066	0.475%	12,372

At 31 December 2022

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

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 2023 was 0.475% (31 December 2022: 0.496%) as the majority of its private sector credit exposures are attributed to Hong Kong.

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6. LEVERAGE RATIO

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

		As at 31 December 2023	As at 31 December 2022
	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	6,216,206	6,405,275
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	29,198	13,430
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)	694,047	831,078
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(1,762)	(1,406)
7	Other adjustments	(22,993)	(30,630)
8	Leverage ratio exposure measure	6,914,696	7,217,747

The movement of the leverage ratio exposure measure was mainly arising from asset size movement.

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6. LEVERAGE RATIO (continued)

(b) Leverage ratio

		HK\$'000 equivalent	
		As at 31 December 2023	As at 31 December 2022
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,215,550	6,404,123
2	Less: Asset amounts deducted in determining Tier 1 capital	(22,337)	(29,478)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,193,213	6,374,645
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	6,427	3,529
5	Add-on amounts for PFE associated with all derivative contracts	22,771	9,901
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	29,198	13,430
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	694,047	831,078
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	Off-balance sheet items	694,047	831,078
Capital and total exposures			
20	Tier 1 capital	1,774,666	1,763,757
20a	Total exposures before adjustments for specific and collective provisions	6,916,458	7,219,153
20b	Adjustments for specific and collective provisions	(1,762)	(1,406)
21	Total exposures after adjustments for specific and collective provisions	6,914,696	7,217,747
Leverage ratio			
22	Leverage ratio	25.67%	24.43%

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7. LIQUIDITY

(a) Governance of liquidity risk management

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

(d) Liquidity stress testing

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

(e) Contingency funding plan

As stated in the Liquidity Risk Management Guidelines ("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 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 2023
Liquidity Maintenance Ratio ¹	136.41%
Loan to Deposit Ratio ²	50.68%
Wholesale Funding Dependency Ratio ²	0.45%
FX Swap to Client Deposit Ratio	
- Local currency swap ratio (HKD) ²	36.58%
- Foreign currency swap ratio (non-HKD) ²	0.00%
Funding source concentration from intra-group companies	6.17%

¹ average as submitted to the HKMA

² measured in monthly average

Maturity Mismatch Ratio

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

As at 31 December 2023, the maturity mismatch ratio for major currencies are as followed:

Currency	Tenor - 1 week	Tenor - 1 month
HKD	22.14%	20.51%
USD	10.17%	37.53%
CNY	30.32%	-0.80%

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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 2023 and 2022 is shown as follows:

In HK\$ thousands	Next day	2 to 7 days	8 days to 1 month	Between 1 to 3 months	Between 3 to 12 months	Over 1 year	Undated/ Indefinite/ Overdue	Total
31 December 2023								
Cash and due from banks	167,851	472,433	513,615	218,828	-	-	-	1,372,727
Loans and advances to customers	546,514	1,120,075	495,264	75,010	-	-	1,276	2,238,139
Debt instruments	2,590,942	-	-	-	-	-	-	2,590,942
Other assets	-	-	-	-	-	-	6,369	6,369
Total on-balance sheet assets	3,305,307	1,592,508	1,008,879	293,838	-	-	7,645	6,208,177
Deposits from customers	776,411	391,423	805,550	1,574,026	751,006	-	-	4,298,416
Other liabilities	-	-	11,275	1,948	100,611	1,000	1,762	116,596
Total on-balance sheet liabilities	776,411	391,423	816,825	1,575,974	851,617	1,000	1,762	4,415,012
Off-balance sheet claims	1,158,586	134,374	378,136	149,910	39,397	-	1,024,000	
Off-balance sheet obligations	1,159,045	255,990	378,915	147,835	38,793	-	-	
Maturity mismatch	2,528,437	1,079,469	191,275	(1,280,061)	(852,221)	(1,000)	1,029,883	
Cumulative maturity mismatch	2,528,437	3,607,906	3,799,181	2,519,120	1,666,899	1,665,899	2,695,782	

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31 December 2023

7. LIQUIDITY (continued)

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

In HK\$ thousands	Next day	2 to 7 days	8 days to 1 month	Between 1 to 3 months	Between 3 to 12 months	Over 1 year	Undated/ Indefinite/ Overdue	Total
31 December 2022								
Cash and due from banks	1,635,566	-	813,241	-	-	-	-	2,448,807
Loans and advances to customers	174,710	1,891,249	873,468	11,729	-	-	1,274	2,952,430
Debt instruments	994,002	-	-	-	-	-	-	994,002
Other assets	-	-	-	-	-	-	6,946	6,946
Total on-balance sheet assets	2,804,278	1,891,249	1,686,709	11,729	-	-	8,220	6,402,185
Deposits from customers	1,768,210	423,723	1,586,312	195,976	302,063	-	-	4,276,284
Other liabilities	-	195,416	11,331	-	107,145	2,657	1,407	317,956
Total on-balance sheet liabilities	1,768,210	619,139	1,597,643	195,976	409,208	2,657	1,407	4,594,240
Off-balance sheet claims	210,428	81,211	319,729	17,259	59,333	-	1,024,000	
Off-balance sheet obligations	210,308	407,404	321,135	16,859	58,353	-	-	
Maturity mismatch	1,036,188	945,917	87,660	(183,847)	(408,228)	(2,657)	1,030,813	
Cumulative maturity mismatch	1,036,188	1,982,105	2,069,765	1,885,918	1,477,690	1,475,033	2,505,846	

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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 approval 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 2023						
		(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)
In HK\$ thousands		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	1,276	2,236,863	1,276	1,276	-	-	2,236,863
2	Debt securities	-	2,558,247	445	-	445	-	2,557,802
3	Off-balance sheet exposures	-	6,940,466	-	-	-	-	6,940,466
4	Total	1,276	11,735,576	1,721	1,276	445	-	11,735,131

		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)
In HK\$ thousands		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
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	-	8,310,777	-	-	-	-	8,310,777
4	Total	1,274	12,255,258	1,389	1,274	115	-	12,255,143

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

(In HK\$ thousands)		Amount
1	Defaulted loans and debt securities at end of the previous reporting period (31 December 2022)	1,274
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	2
6	Defaulted loans and debt securities at end of the current reporting period (31 December 2023)	1,276

(In HK\$ thousands)		Amount
1	Defaulted loans and debt securities at end of the previous reporting period (31 December 2021)	1,274
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	Defaulted loans and debt securities at end of the current reporting period (31 December 2022)	1,274

(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.

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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

In HK\$ thousands	As at 31 December 2023	As at 31 December 2022
Hong Kong SAR	3,464,164	4,574,840
Mainland China	1,022,142	1,037,774
Singapore	696,113	53,317
Others	1,029,196	736,787
Total credit exposures	6,211,615	6,402,718

Concentration of exposures by industry

In HK\$ thousands	As at 31 December 2023	As at 31 December 2022
Banks	2,370,459	2,448,792
Official sector	1,598,409	997,047
Non-bank private sector		
- Investment companies	281,353	425,615
- Individuals	1,956,787	2,525,538
- Others	4,607	5,726
Total credit exposures	6,211,615	6,402,718

Exposures by residual maturity

In HK\$ thousands	As at 31 December 2023	As at 31 December 2022
Up to 1 month	3,644,486	5,787,687
Between 1-3 months	839,567	410,124
Between 3-12 months	1,722,955	199,181
Undated/ Indefinite	4,607	5,726
Total credit exposures	6,211,615	6,402,718

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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

In HK\$ thousands	As at 31 December 2023	As at 31 December 2022
Hong Kong SAR	1,276	1,274
Gross impaired exposures	1,276	1,274
Less: individual impairment allowance	(1,276)	(1,274)
Net exposures	-	-

Impaired exposures and related allowances by industry

In HK\$ thousands	As at 31 December 2023	As at 31 December 2022
Individual	1,276	1,274
Gross impaired exposures	1,276	1,274
Less: individual impairment allowance	(1,276)	(1,274)
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 2023				
(In HK\$ thousands)		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	672,053	1,566,086	1,230,520	-	-
2	Debt securities	2,595,698	-	-	-	-
3	Total	3,267,751	1,566,086	1,230,520	-	-
4	Of which defaulted	1,276	-	-	-	-

		As at 31 December 2022				
(In HK\$ thousands)		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	787,657	2,164,770	1,476,272	-	-
2	Debt securities	993,213	-	-	-	-
3	Total	1,780,870	2,164,770	1,476,272	-	-
4	Of which defaulted	1,274	-	-	-	-

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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

(In HK\$ thousands)		As at 31 December 2023					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	447,484	-	447,484	-	-	-
2	PSE exposures	1,150,925	-	1,150,925	-	230,185	20%
2a	Of which: domestic PSEs	1,150,925	-	1,150,925	-	230,185	20%
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	2,370,459	348,719	2,370,459	3,076	804,384	34%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	275,053	2,752,636	137,503	26,122	163,625	100%
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	185,181	1,097,846	58,736	-	44,052	75%
11	Residential mortgage loans	62,141	30,242	62,141	-	25,832	42%
12	Other exposures which are not past due exposures	1,719,083	4,571,426	752,557	-	752,557	100%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	6,210,326	8,800,869	4,979,805	29,198	2,020,635	40%

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8. CREDIT RISK (continued)

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

(In HK\$ thousands)		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	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	797,911	-	797,911	-	-	-
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	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	2,448,810	204,665	2,448,810	1,604	490,083	40%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	418,550	1,565,392	244,771	10,621	255,392	100%
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	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	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	6,402,850	8,998,733	4,926,578	12,225	1,950,732	40%

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8. CREDIT RISK (continued)

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

(In HK\$ thousands)		As at 31 December 2023										
Risk Weight	Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	447,484	-	-	-	-	-	-	-	-	-	447,484
2	PSE exposures	-	-	1,150,925	-	-	-	-	-	-	-	1,150,925
2a	Of which: domestic PSEs	-	-	1,150,925	-	-	-	-	-	-	-	1,150,925
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,271,535	-	1,098,924	-	-	-	-	-	2,370,459
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	137,503	-	-	-	137,503
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	-	-	-	-	-	58,736	-	-	-	-	58,736
11	Residential mortgage loans	-	-	-	55,860	-	-	6,281	-	-	-	62,141
12	Other exposures which are not past due exposures	-	-	-	-	-	-	752,557	-	-	-	752,557
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	447,484	-	2,422,460	55,860	1,098,924	58,736	896,341	-	-	-	4,979,805

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8. CREDIT RISK (continued)

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

(In HK\$ thousands)		As at 31 December 2022										
Risk Weight	Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
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	Total	797,911	-	2,645,830	82,584	-	79,266	1,333,212	-	-	-	4,938,803

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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 risk management framework with the related standards and procedures to effectively manage the counterparty credit risk. The standard “Credit Risk (Counterparty) 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 and the Board.

Under the risk management framework, the credit limits and credit exposures to counterparties are 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, Risk Management Department performs 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 at least on an annual basis.

Furthermore, the Risk Management Department 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 management 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

(In HK\$ thousands)		As at 31 December 2023					
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	4,591	16,265		1.4	29,198	26,737
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	Total						26,737

(In HK\$ thousands)		As at 31 December 2022					
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
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	Total						10,942

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

(c) CVA capital charge

(In HK\$ thousands)		As at 31 December 2023		As at 31 December 2022	
		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	29,198	5,050	12,225	1,963
4	Total	29,198	5,050	12,225	1,963

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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

(In HK\$ thousands)		As at 31 December 2023										
Risk Weight	Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	3,076	-	-	-	-	-	-	-	3,076
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	26,122	-	-	-	26,122
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	3,076	-	-	-	26,122	-	-	-	29,198

The movement of the total default risk exposure after CRM was mainly arisen from forwards and swaps contracts for funding and risk management purposes.

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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)

(In HK\$ thousands)		As at 31 December 2022										
Risk Weight	Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	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	Total	-	-	1,604	-	-	-	10,621	-	-	-	12,225

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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)

(In HK\$ thousands)	As at 31 December 2023					
	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		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Total	-	-	-	-	-	-

(In HK\$ thousands)	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		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

(In HK\$ thousands)		As at 31 December 2023 RWA	As at 31 December 2022 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	64,063	37,482
4	Commodity exposures	-	-
	Option exposures		
5	Simplified approach	-	-
6	Delta-plus approach	-	-
7	Other approach	-	-
8	Securitization exposures	-	-
9	Total	64,063	37,482

The increase in total market risk RWA was mainly arisen from movement in foreign currencies position.

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 (“ Δ 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 change in 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 change in 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. The Company did not apply hedge accounting during the year ended 31 December 2023 and 2022.

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.

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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 2023 and 2022.

(In HK\$ million)		(a)	(b)	(c)	(d)
		ΔEVE		ΔNII	
	Period	As of 31 December 2023	As of 31 December 2022	As of 31 December 2023	As of 31 December 2022
1	Parallel up	12	6	(28)	(42)
2	Parallel down	1	1	28	42
3	Steepener	1	1		
4	Flattener	11	5		
5	Short rate up	12	7		
6	Short rate down	3	2		
7	Maximum	12	7	28	42
	Period	As of 31 December 2023		As of 31 December 2022	
8	Tier 1 capital	1,798		1,764	

12. OPERATIONAL RISK

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

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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 2023, the Company has not requested to seek advice from external consultant on matters relating to remuneration.

(i) Governance

The Nomination and Remuneration Committee (the “NRC”) assists the Board in identifying and nominating candidates as directors and senior management of the Company for appointment and 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 and review 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 and review 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 remuneration strategies, plans and policies;
- To review and supervise the execution of remuneration policy to ensure that it is consistent with the regulatory guideline and any other legal or regulatory requirements;
- To establish a professional and effective incentive scheme and control mechanism; and
- To improve, enhance and ensure the competitiveness and quality of human capital.

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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 passed four written solutions. The remuneration policy has been reviewed by the NRC and endorsed by the Board, and some minor amendments were made according to the latest version of Supervisory Manual module CG5 issued by HKMA on 29th July 2022, mainly including:

- Updating the “employee categorization” in the remuneration policy to further elaborate the requirements under section 2.1.1 in Supervisory Manual module CG-5;
- Revising the description of “non-financial factors” related to the annual performance evaluation and performance measures factors in the remuneration policy.

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)

31 December 2023

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 of the Company 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 board meetings 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

13. REMUNERATION (continued)

(b) Remuneration awarded during the financial year

(In HK\$ thousands)			2023	
	Remuneration amount and quantitative information		Senior management	Key personnel
1	Fixed	Number of employees	6	5
2	remuneration	Total fixed remuneration	9,190	6,689
3		Of which: cash-based	9,190	6,689
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	5	5
10	remuneration	Total variable remuneration	1,763	4,792
11		Of which: cash-based	1,763	4,792
12		Of which: deferred	705	1,917
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		10,953	11,481

(In HK\$ thousands)			2022	
	Remuneration amount and quantitative information		Senior management	Key personnel
1	Fixed	Number of employees	7	3
2	remuneration	Total fixed remuneration	7,882	4,697
3		Of which: cash-based	7,882	4,697
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	3,302	3,078
11		Of which: cash-based	3,302	3,078
12		Of which: deferred	1,324	1,234
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		11,184	7,775

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

13. REMUNERATION (continued)

(c) Special payments

(In HK\$ thousands)		2023					
	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	415	1	144	-	-
2	Key personnel	-	-	-	-	1	42

(In HK\$ thousands)		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	12	2	350	-	-
2	Key personnel	-	-	-	-	-	-

Total severance payment amounted to HK\$42,000 (2022: Nil) was awarded and actually made to Senior Management and Key Personnel during 2023.

(d) Deferred remuneration

(In HK\$ thousands)		2023				
	Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which:	Total amount of amendment during the year due to explicit adjustments	Total amount of amendment during the year due to implicit adjustments	Total amount of deferred remuneration paid out in the financial year
			Total amount of outstanding deferred remuneration exposed to explicit and/or implicit adjustment			
1	Senior management					
2	Cash	344	-	-	-	437
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	636	-	-	-	1,046
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	980	-	-	-	1,483

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

13. REMUNERATION (continued)

(d) Deferred remuneration (continued)

(In HK\$ thousands)		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	1,320	-	-	-	3,199
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	1,459	-	-	-	2,687
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	2,779	-	-	-	5,886

There is no amount of deferred remuneration reduced through performance adjustments for Senior Management and Key Personnel during 2023 (2022: 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 2023 (2022: Nil).

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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
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The Company's business segment results for 2023 and 2022 are as follows:

In HK\$ thousands	2023 Private banking	2022 Private banking
Net interest income	127,922	88,653
Net fee and commission income	85,273	144,341
Net trading gains/(losses)	3,712	(134)
Operating income	216,907	232,860
Operating expenses	(213,212)	(223,462)
Profit before impairment allowances	3,695	9,398
Net (charge) /release of impairment allowances	(353)	126
Profit before taxation	3,342	9,524
Segment assets	6,216,206	6,405,275
Segment liabilities	4,417,882	4,612,003

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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15. LOANS AND ADVANCES TO CUSTOMERS

(i) Loans and advances to customers by industry sectors

In HK\$ thousands	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
		%				
At 31 December 2023						
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	1,956,786	100%	1,276	1,276	-	1,276
Financial concerns						
- Investment companies	281,353	100%	-	-	-	-
	<u>2,238,139</u>					
Loans for use outside Hong Kong						
	<u>-</u>					
	<u><u>2,238,139</u></u>					

In HK\$ thousands	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
		%				
At 31 December 2022						
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>					

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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.

In HK\$ thousands	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
At 31 December 2023					
Hong Kong	831,421	1,276	1,276	-	1,276
Mainland China	1,022,142	-	-	-	-
Others	384,576	-	-	-	-
	<u>2,238,139</u>	<u>1,276</u>	<u>1,276</u>	<u>-</u>	<u>1,276</u>
In HK\$ thousands	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
At 31 December 2022					
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>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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.

In HK\$ thousands	On-balance sheet exposures	Off-balance sheet exposures	Total exposures
<u>Type of counterparties</u>			
At 31 December 2023			
Central government, central government-owned entities and their subsidiaries and joint ventures	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	979,325	-	979,325
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	89,493	-	89,493
	<u>1,068,818</u>	<u>-</u>	<u>1,068,818</u>
Total assets after provision	<u>6,218,113</u>		
On-balance sheet exposures as percentage of total assets	<u>17.19%</u>		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(iii) Non-bank mainland exposures (continued)

In HK\$ thousands	On-balance sheet exposures	Off-balance sheet exposures	Total exposures
<u>Type of counterparties</u>			
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>		

(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 2023 (2022: Nil).

(v) Repossessed assets

There were no repossessed assets as at 31 December 2023 (2022: Nil).

BANK OF CHINA INTERNATIONAL LIMITED

中銀國際有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

16. CURRENCY CONCENTRATIONS

In HK\$ thousands	USD	CNY	JPY	CAD	CHF	SGD	EUR	AUD	GBP	Others	Total
2023											
Spot assets	1,285,571	41,119	36,224	3,133	64,034	2,715	16,949	3,617	4,538	2,015	1,459,915
Spot liabilities	(1,953,833)	(453,996)	-	(6,713)	-	(24,988)	(2)	(28,948)	(40,648)	(1,604)	(2,510,732)
Forward purchases	1,296,595	407,221	30,380	14,750	-	30,838	20,765	24,009	31,879	3,966	1,860,403
Forward sales	(561,154)	-	(63,080)	-	(43,687)	-	(21,630)	-	-	-	(689,551)
Net long/(short) position	67,179	(5,656)	3,524	11,170	20,347	8,565	16,082	(1,322)	(4,231)	4,377	120,035
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

There were no net structural positions as at 31 December 2023 and 31 December 2022.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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:

In HK\$ million	Banks	<u>Non-bank private sector</u>			Total
		Official sector	Non-bank financial institutions	Non-financial private sector	
<u>At 31 December 2023</u>					
Developed countries	342	-	-	-	342
Offshore centres	1,177	-	-	395	1,572
Developing Latin America and Caribbean	-	-	-	11	11
Developing Africa and Middle East	-	-	-	-	-
Developing Asia and Pacific	255	-	-	1,085	1,340
<i>Of which: Mainland China</i>	-	-	-	<i>1,022</i>	<i>1,022</i>
	<u>1,774</u>	<u>-</u>	<u>-</u>	<u>1,491</u>	<u>3,265</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

17. INTERNATIONAL CLAIMS (continued)

In HK\$ million	Banks	<u>Non-bank private sector</u>			Total
		Official sector	Non-bank financial institutions	Non-financial private sector	
<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: Mainland China</i>	-	-	-	1,038	1,038
	1,100	-	-	1,975	3,075
	1,100	-	-	1,975	3,075

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 nine directors as of 31 December 2023. The Board held four meeting and passed four written solutions during the year ended 31 December 2023.

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)

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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. Two Audit Committee meetings were held for the year ended 31 December 2023.

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). Two meetings were held during the year ended 31 December 2023.

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, including any other risks which are transmitted into the aforementioned risk types. 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 to ensure they are consistent with the stated risk appetite, 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 and approve risk limits and significant business transactions according to the authority delegated by the Board.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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 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 one meeting and passed four written solutions during the year ended 31 December 2023.

(e) Strategy and Budget Committee

The Strategy and Budget Committee (the "SBC"), which is composed of four members, including the non-executive director (Chairman), two non-executive directors and one independent non-executive director. The SBC convened four meetings during the year ended 31 December 2023.

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 2023

18. CORPORATE GOVERNANCE (continued)

(f) Executive Committee

During the year, the Executive Committee (“EC”) was chaired and led by CE (“the Chairperson”), and is composed of the CE, Alternate Chief Executives, Deputy Chief Executives, 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 Chief Operating Officer and the Chief Business Development Officer. 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 twelve meetings during the year ended 31 December 2023.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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, including but not limit to matters related to climate risk;
- 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 oversee the management of assets and liabilities, review the fair value calculation results of balance sheet items measured at fair value, and review and approve relevant policies and guidelines.
- 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 either liquidity or 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 nine members, one executive director, six non-executive directors and two 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 2023

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS

Role	Name	Information
Chairman	WANG Ying	Profile 1
Board Members	LIU Min	Profile 2 (Appointed on 4 July 2023)
	LAM Kwong Siu	Profile 3
	IP Sio Kai	Profile 4
	WANG Yan	Profile 5 (Appointed on 7 March 2023)
	WANG Zeyu	Profile 6 (Appointed on 11 April 2023)
	GUO Zhiqiang	Profile 7
Independent Non-executive Director	WONG Wai Kwan Anna	(Resigned on 6 July 2023)
	NG Kim Lam	Profile 8
	SUEN Man Tak	Profile 9
Chief Risk Officer	XING Shanshan	Appointed on 20 May 2021
Head of Internal Audit Division	YIP Heung Wing Wayne	Appointed on 10 March 2023

The information about Board Members below is as of 31 December 2023.

Profile 1 – WANG Ying

Ms. WANG Ying, aged 45, is a Chairperson, Non-executive Director, and chairperson of the Strategy and Budget Committee 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 24 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 2023

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

Profile 2 – LIU Min

Mr. LIU Min, aged 47, is a Non-executive Director and member of the Nomination and Remuneration Committee of the Company. Mr. LIU holds Bachelor Degree in International Finance, Master Degree in Law and Doctoral Degree in Finance. Mr. LIU has 24 years of solid experience in banking industry, including but not limited to asset management and security, personal banking, private banking and digital banking.

Mr. LIU joined Bank of China Group (“**Group**”) since 1999, he took various management positions in international business, wealth management as well as disposal of non-performing assets in the Group, participated in major historical events such as Bank of China’s share reform and listing, Olympic services, etc. He has accumulated sound and professional understanding in financial management, business strategies planning, business transformation and executions. Mr. LIU started his role as the Chairman of BOC International Holdings Limited (“**BOCI Holdings**”) since August 2022. Mr. LIU leads the management team of BOCI Holdings to further evaluate the business development strategies and enhance the corporate governance of BOCI Holdings.

Profile 3 – LAM Kwong Siu

Mr. LAM Kwong Siu GBS and SBS, aged 89, is a Non-executive Director and member of each of Audit Committee and Nomination and Remuneration Committee of the Company. Mr. LAM has more than 50 years of banking experience. Currently, Mr. LAM serves as a Vice Chairman of BOC International Holdings Limited. He also serves as the honorary chairman of the Hong Kong Federation of Fujian Associations, life honorary chairman of the Hong Kong Fukien Chamber of Commerce, vice chairman of the Fujian Hong Kong Economic Co-operation, life honorary chairman of the Chinese General Chamber of Commerce, adviser of the Hong Kong Chinese Enterprises Association and the honorary president of the Chinese Bankers Club of Hong Kong.

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

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

Profile 4 – IP Sio Kai

Mr. IP Sio Kai, aged 63, 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 Standing Committee of the Coordination of Social Affairs of Macau Special Administrative Region, Member of University Assembly of University of Macau, 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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

Profile 5 – WANG Yan

Ms. WANG Yan, aged 51, is a Non-executive Director and member of Audit Committee of the Company. Ms. WANG was appointed as the Deputy General Manager of Bank of China Singapore Branch in 2016. Prior to this appointment, she was the Assistant General Manager of BOC Singapore Branch from September 2014. Ms. WANG joined Bank of China in July 1994, and held various managing positions including the Deputy General Manager of International Settlement Department, Deputy General Manager of Corporate Banking Department, Deputy General Manager of Treasury Department, General Manager of Corporate Banking and Treasury Department of Bank of China Sichuan Branch, as well as the Head of Forfaiting Unit and Commodity Business Unit of Bank of China Singapore Branch.

Ms. WANG graduated from Jiangxi University of Finance and Economics with a Bachelor degree in Accounting, she also holds a Master degree in Business Administration from Webster University in the United States.

Profile 6 – WANG Zeyu

Mr. WANG Zeyu, aged 47, is a Non-executive Director and member of Strategy and Budget Committee of the Company. Mr. WANG has over 25 years of experience in the banking industry. His career spans across various positions at the head office, domestic and overseas branches of Bank of China, when he amassed rich experience particularly in corporate banking, retail banking, risk management and consumer protection, etc. Mr. WANG is now the general manager of the Digital Personal Banking Department of the head office of Bank of China, and he concurrently serves as a director of BOC Wealth Management Co., Ltd.

Mr. WANG obtained his bachelor and master's degrees from University of International Business and Economics, and also earned an EMBA degree from City University of London.

Profile 7 – GUO Zhiqiang

Mr. GUO Zhiqiang, aged 54, is an Executive Director and Chief Executive of the Company. Mr. GUO has more than 31 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 2023

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

Profile 8 – NG Kim Lam

Mr. NG Kim Lam, aged 51, 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 is the Vice Chairman and General Manager of Green Technology Center of Green Development Institute, aims at promoting the development of green technologies and green finance in Hong Kong and mainland China. Mr. NG is appointed as a committee member of Green Technology and Finance Development Committee of Hong Kong SAR Government. Mr. NG was the national head of technology and media sectors for KPMG in China. In this role, Mr. NG founded the innovative startup center in 2015, established an online and offline model in serving high growth technology companies, and led the teams which developed an online ecosystem app connecting startups, corporates, investors, research institutes and government bodies and a SIP framework to identify and evaluate early stage technology companies. Mr. NG served as the core/lead partner establishing the ecosystem of high growth technology companies in China, including Autotech, RetailTech, Fintech, Biotech and Chipset.

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

Profile 9 – SUEN Man Tak

Mr. SUEN Man Tak, aged 65, 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 Zijin Mining Group Co., Ltd. and China Jinmao Holdings Group Limited, both of which are listed on the Stock Exchange. Mr. SUEN was appointed as an independent non-executive director of Sino-Ocean Group Holdings Limited from December 2015 to June 2023, and an independent director of Inception Growth Acquisition Limited, a company listed on The Nasdaq Global Market from March 2021 to March 2023.

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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2023

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".