Habib Bank Zurich (Hong Kong) Limited

31 December 2021

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2021.

Principal place of business and principal activities

Habib Bank Zurich (Hong Kong) Limited ("the Bank") is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

The Bank is registered as a Restricted Licence Bank under the Hong Kong Banking Ordinance. The principal activities of the Bank are the taking of deposits and financing of import/export and local trade.

Operating results

Hong Kong's economy expanded by 6.4% for the year 2021, compared to a contraction of 6.1% in 2020. Exports of goods increased by 26.3%, compared to last year's contraction of 1.5%. The labour market improved gradually in 2021. Consumer price inflation rose by 1.6% in 2021 compared to a decline of 0.3% in 2020.

Despite a challenging environment in 2021, due to the continuation of the Covid-19 pandemic, the Bank continued to maintain operational services across its branches and all its functions adhering to local guidelines, ensuring minimal disruption to customer services through the year.

In early 2020, the Pre-approved Principal Payment Holiday Scheme ("Scheme") was introduced by the Hong Kong Monetary Authority for immediate relief to corporates disrupted by the Covid-19 outbreak. The Bank actively continues to participate in the Scheme to help its customers over this difficult period.

The Bank completed the merger of three branches (Lai Chi Kok, Kwun Tong and Hung Hom) into its two larger branches (Central and TST) in January 2021 which made operations more efficient along with significant cost savings

Adequate liquidity was maintained to cater to any unforeseen circumstances due to the volatility in the financial markets during the Covid-19 period.

As at 31 December 2021, the Bank's capital adequacy ratio stood at 28% while maintaining a capital base of HK$571.1 million (2020: HK$553.1 million). The Bank's customer deposit base, including imprest accounts and margin deposits on letters of credit and trade bills, stood at HK$1.94 billion (2020: HK$1.76 billion). Based on such balance sheet strength, the Bank prudently managed its lending portfolio. As at the year end, total advances to customers including trade bills increased by 13% to HK$1.93 billion (2020: HK$1.71 billion).

Operating results (continued)

During the year, export bills totalling HK$8.35 billion (2020: HK$5.59 billion) and import bills of HK$1.29 billion (2020: HK$1.12 billion) were processed. Import letters of credit for HK$1.79 billion (2020: HK$1.21 billion) were opened. Profit for the year was HK$31.45 million (2020: HK$10.94 million).

The Hong Kong economy is expected to expand further in 2022, but the pandemic, and its short-term impact on Hong Kong and China, remains a key uncertainty. The outlook for the Hong Kong economy is also subject to a high degree of uncertainty, including the pace of global economic recovery and other geopolitical tensions. The economic environment in Hong Kong is therefore expected to be very challenging. Taking all these factors into account, the Hong Kong economy is forecast to grow by 2.0% to 3.5% in 2022 and consumer price inflation is forecast at 2.0%. The Bank continues to stay vigilant to these developments in order to strategically align itself to the dynamic environment.

Risk management

The Bank has established policies and procedures, which are subject to annual review, to identify and analyse key risks facing the Bank, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes.

(i) Board level committees

The Board of Directors has established two board level committees, namely the Board Risk and Credit Committee and the Board Audit and Compliance Committee.

The Board Risk and Credit Committee is responsible for, among other things, the Bank's risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control. The Committee comprises of two independent non-executive directors and three non-executive directors. The Committee is chaired by an independent non-executive director.

The purpose of the Board Audit and Compliance Committee is to represent and assist the Board of Directors in providing independent review and monitoring of the financial reporting process, internal control system, the internal and external audit process and compliance with regulatory requirements. The Committee comprises two independent non-executive directors and two non-executive directors. The Committee is chaired by an independent non-executive director.

Risk management (continued)

(ii) Specialized management committees

The Board of Directors has also established several specialized management committees and working groups, namely the Executive Committee, Risk and Credit Committee, Audit and Compliance Committee, Asset and Liability Committee, Operations and Technology Working Group and Human Resources Working Group.

The Executive Committee addresses issues of management, structure, organization, communication and implementation of current and future strategy. The Committee reviews the development and implementation of the strategy, operating and financial performance, prioritization and allocation of resources, assessment of control risk and operational plans.

The Risk and Credit Committee is entrusted with the task of putting in place systems and procedures that address the prevention of risks emerging or likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluates the adequacy of organisational policies and procedures to manage the risks effectively. The Committee is responsible for monitoring and reviewing regulatory compliance within the institution. The Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances.

The purpose of the Audit and Compliance Committee is to review and resolve audit issues and have oversight and ensure compliance with legal and regulatory requirements.

The Asset and Liability Committee’s principal responsibility is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies.

The Operations and Technology Working Group is responsible for operational risk and technology related matters such as authorization of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information.

The Human Resources Working Group is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan.

Risk management (continued)

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Bank holds collateral against advances to customers in the form of mortgages over property and liquid assets. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

To mitigate credit risk, the Bank enters into netting arrangements with counterparties and customers. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

(b) Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

Risk management (continued)

Currency risk management

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof is largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate net open positions are managed within limits. All exposures are monitored by the finance department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk.

As the majority of the Bank's assets and liabilities are denominated in either Hong Kong dollars ("HK$") or United States dollars ("US$") and the US$ is pegged to the HK$, management does not consider there to be any significant currency risk associated with them.

Interest rate risk management

The Bank's interest rate risk positions arise from trade finance, investments, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. Management monitors the weighted average rates on deposits, lending, placements and investments to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is considered low.

(c) Liquidity risk management

Liquidity relates to the ability of a Bank to meet its obligations as they fall due. Liquidity and funding risk is the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

Risk management (continued)

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity maintenance ratio is complied with.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

(d) Operational risk management

Operational risk is the risk of potential loss arising from inadequate, or failure of, internal processes, people and systems or from external events. It arises from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. An Operations and Technology Working Group is in place to manage operational risks with oversight by the Risk and Credit Committee.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning and insurance policies.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

Risk management (continued)

(e) Capital management

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

(f) Compliance

Compliance is an integral part of the Bank's risk management function taking care of risks associated with regulatory non-compliance and financial crime risks. The Bank places high importance on the potential risks arising out of non-compliance including loss of reputation, supervisory actions or other regulatory measures including monetary penalties.

The compliance function in the Bank has been given the responsibility of supervising and mitigating compliance risk. Its mandate includes assimilation and dissemination of regulatory requirements relating to the business of the Bank, compliance advisory for implementation of relevant regulations and guidelines to various functions and conducting periodic self-assessments and other regulatory compliance reviews on a risk based approach. It also manages the framework and governance of anti-money laundering and counter-terrorist financing activities to be prevented by the Bank.

The compliance function is tasked to regularly report compliance matters to Senior Management. It also reports significant issues through the Audit and Compliance Committee to the Board of Directors.

Financial statements

The results of the Bank for the financial year ended 31 December 2021 and the state of the Bank's affairs as at that date are set out in the financial statements on pages 13 to 88.

The directors recommend the payment of a dividend of HK$10.5 million (2020: HK$10.0 million) in respect of the year ended 31 December 2021.

Transfer to reserves

Profit attributable to shareholders, before dividends, of HK$31.45 million (2020: HK$10.94 million) has been transferred to reserves. Other movements in reserves are set out on page 16 and note 24.

Compliance with the Banking (Disclosure) Rules

The financial statements for the financial year ended 31 December 2021 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Share capital

Details of the share capital of the Bank are set out in note 23 to the financial statements.

Charitable donations

Donations made by the Bank during the year amounted to HK$161,000 (2020: HK$175,055).

Directors

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

Mr Mohamedali R. Habib
Mr Rajat Garg
Mr Ikram Quraishi
Mr Paul Jeremy Brough
Mr Alex Kwong Fai Kam
Mr Sachil Dagur
Mr Hamza Habib (appointed on 11 March 2021)

At no time during the financial year was the Bank, its holding company or a fellow subsidiary a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Bank is currently in force and was in force throughout this year.

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Sachil Dagur

Paul Jeremy Brough

Hong Kong,

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Habib Bank Zurich (Hong Kong) Limited ("the Bank") set out on pages 13 to 88, which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report to the members of Habib Bank Zurich (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Certified Public Accountants

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Note		*2021*		*2020*
Interest income calculated using the effective interest method	2(a)	$	76,868,536	$	76,483,328
Interest expense	2(b)		(8,769,387)		(19,808,718)
Net interest income		$	68,099,149	$	56,674,610
Fee and commission income	3	$	29,134,442	$	25,226,031
Fee and commission expense			(1,031,252)		(843,989)
Net fee and commission income		$	28,103,190	$	24,382,042
Other net income	4	$	24,389,429	$	19,396,657
Operating income		$	120,591,768	$	100,453,309
Operating expenses	5		(82,467,520)		(84,988,139)
		$	38,124,248	$	15,465,170
Net charge for impairment allowances	*7*		(166,637)		(2,400,822)
Profit before taxation		$	37,957,611	$	13,064,348
Income tax	8(a)		(6,507,319)		(2,122,723)
Profit for the year		$	31,450,292	$	10,941,625

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (continued)

(Expressed in Hong Kong dollars)

	Note		*2021*		*2020*
Profit for the year		$	31,450,292	$	10,941,625
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Financial assets at fair value through other comprehensive income ("FVOCI") - net movement in the fair value reserve	9		(3,434,411)		204,021
Total comprehensive income for the year		$	28,015,881	$	11,145,646

The notes on pages 19 to 88 form part of these financial statements.

Statement of financial position at 31 December 2021

(Expressed in Hong Kong dollars)

	Note	*2021*	*2020*
Assets			
Cash and balances with banks	10	$ 317,750,820	$ 266,667,266
Investments	11	604,804,105	601,852,481
Trade bills	12(a)	1,046,726,221	966,378,648
Advances to customers	13(a)	868,859,269	725,775,499
Taxation	20(a)	-	274,656
Deferred tax assets	20(b)	1,544,253	766,002
Property, plant and equipment	14	78,575,373	100,647,987
Investment properties	15	19,434,039	-
Other assets	16	37,191,616	40,808,569
Total assets		$ 2,974,885,696	$ 2,703,171,108
Liabilities			
Deposits and balances from banks	17	$ 429,474,633	$ 355,529,461
Deposits from customers	18	1,650,664,399	1,379,746,053
Taxation	20(a)	3,848,923	-
Other liabilities	19	319,821,546	414,845,280
Total liabilities		$ 2,403,809,501	$ 2,150,120,794
Equity			
Share capital	23	$ 300,000,000	$ 300,000,000
Reserves		271,076,195	253,050,314
Total equity		$ 571,076,195	$ 553,050,314
Total equity and liabilities		$ 2,974,885,696	$ 2,703,171,108

Approved and authorised for issue by the Board of Directors on

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Paul Jeremy Brough)

The notes on pages 19 to 88 form part of these financial statements.

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

(Expressed in Hong Kong dollars)

	Share capital	*Property revaluation reserve*	*Regulatory reserve*	*Fair value reserve*	*Retained earnings*	*Total*
At 1 January 2020	$ 300,000,000	$ 11,243,741	$ 16,000,000	$ 1,522,140	$ 228,138,787	$ 556,904,668
Dividend approved and paid in respect of prior year	-	-	-	-	(15,000,000)	(15,000,000)
Profit for the year	-	-	-	-	10,941,625	10,941,625
Other comprehensive income for the year	-	-	-	204,021	-	204,021
At 31 December 2020	$ 300,000,000	$ 11,243,741	$ 16,000,000	$ 1,726,161	$ 224,080,412	$ 553,050,314
At 1 January 2021	$ 300,000,000	$ 11,243,741	$ 16,000,000	$ 1,726,161	$ 224,080,412	$ 553,050,314
Dividend approved and paid in respect of prior year	-	-	-	-	(9,990,000)	(9,990,000)
Profit for the year	-	-	-	-	31,450,292	31,450,292
Other comprehensive income for the year	-	-	-	(3,434,411)	-	(3,434,411)
At 31 December 2021	$ 300,000,000	$ 11,243,741	$ 16,000,000	$ (1,708,250)	$ 245,540,704	$ 571,076,195

The notes on pages 19 to 88 form part of these financial statements.

Cash flow statement
for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

		2021		*2020*
Operating activities				
Profit before taxation	$	37,957,611	$	13,064,348
Adjustments for non-cash items:				
Depreciation		4,343,337		4,463,878
Charge for impairment losses		166,637		2,400,822
Advances written off net of recoveries		(2,715,470)		(13,775,973)
Loss on disposal of fixed assets		475		15,841
Gain on disposal/redemption of investment		(268,974)		(578,199)
Amortisation of bond premium		8,655,441		5,433,368
Exchange revaluation of bonds		(4,444,976)		1,181,276
	$	43,694,081	$	12,205,361
Increase in trade bills		(82,322,632)		(197,066,994)
(Increase)/decrease in advances to customers		(138,732,439)		112,369,845
Increase in deposits and placements from banks		73,945,172		284,011,519
Increase/(decrease) in deposits from customers		270,918,346		(231,443,182)
(Decrease)/increase in other liabilities		(94,822,305)		125,788,396
Decrease in other assets		3,615,721		4,260,162
Cash generated from operations	$	76,295,944	$	110,125,107
Income tax paid				
- Hong Kong profits tax paid		(2,491,273)		(4,431,941)
Net cash generated from operating activities	$	73,804,671	$	105,693,166

Cash flow statement
for the year ended 31 December 2021 (continued)
(Expressed in Hong Kong dollars)

	Note	*2021*	*2020*
Investing activities			
Payments for purchase of fixed assets		$ (1,710,937)	$ (696,395)
Proceeds from sales of fixed assets		5,700	-
Payments for purchase of investments		(217,482,666)	(335,135,847)
Proceeds from redemption of investments		178,826,866	215,119,310
Proceeds from sales of investments		27,752,939	88,176,794
Net cash used in investing activities		$ (12,608,098)	$ (32,536,138)
Financing activity			
Capital element of lease rentals paid		$ (205,200)	$ (205,282)
Interest element of lease rentals paid		(12,825)	(19,029)
Dividends paid		(9,990,000)	(15,000,000)
Net cash used in financing activity		$ (10,208,025)	$ (15,224,311)
Net increase in cash and cash equivalents		$ 50,988,548	$ 57,932,717
Cash and cash equivalents at 1 January		266,767,280	208,834,563
Cash and cash equivalents at 31 December		$ 317,755,828	$ 266,767,280
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks	10	$ 317,755,828	$ 266,767,280
Cash flows from operating activities include:			
Interest received		$ 87,246,225	$ 83,558,405
Interest paid		(9,240,683)	(26,651,773)

The notes on pages 19 to 88 form part of these financial statements.

Notes to the financial statements
(Expressed in Hong Kong dollars)

1 Significant accounting policies

Habib Bank Zurich (Hong Kong) Limited (the "Bank") is a restricted licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Bank are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Bank. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Bank for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the revaluation of a residential apartment and certain financial instruments as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Bank.

None of the developments have had a material effect on how the Bank's results and financial position for the current or prior periods have been prepared or presented. The Bank has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Revenue and other income

(i) Interest income and expense

Effective interest rate

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit losses ("ECL").

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on 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 expected credit loss.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

1 Significant accounting policies (continued)

(d) Revenue and other income (continued)

(i) Interest income and expense (continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the basis of the gross carrying amount.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income ("OCI") includes interest on financial assets and financial liabilities measured at amortised cost and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are presented in net income from other financial instruments at FVTPL.

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss on an accrual basis in accordance with the terms of the relevant agreements. Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net income from other financial instruments at FVTPL

Net income from other financial instruments at FTVPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(e) Intangible assets

Intangible assets comprise a club membership acquired by the Bank which is stated in the statement of financial position at cost less impairment losses (see note 1(i)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed on, and whose performance is evaluated on, a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held to both collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms;

- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and

- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset (excluding equity investment securities), the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification are adjusted in the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at average of bid and ask prices and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment

The ECL model requires an ongoing measurement of credit risk associated with a financial asset.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1 financial instruments”.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit-impaired (referred to as "Stage 3 financial instruments"). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

1 Significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- financial guarantee contracts: generally, as a provision;

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in profit or loss.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

1 Significant accounting policies (continued)

(g) Loans and receivables

Loans and receivables include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Investments

Investments include:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and

- debt securities measured at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;

- ECL and reversals; and

- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from fair value reserve to profit or loss.

(i) Impairment of non-financial assets

The carrying amounts of the Bank’s non-financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss. Impairment losses are written off against the corresponding assets directly.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

- Fixed assets (other than properties carried at revalued amounts); and

- Intangible assets.

If any such indication exists, the asset’s recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 Significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and placements with banks with original maturity of three months or less for the purpose of the cash flow statement. Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

1 Significant accounting policies (continued)

(k) Fixed assets

Fixed assets are held for own use and are stated at cost or valuation less accumulated depreciation and impairment losses (note 1(i)). A property is held at a revalued amount and was last revalued in 1994. In accordance with paragraph 80A of HKAS 16, “Property, plant and equipment”, no further revaluation of the property is required.

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives using the straight line method as follows:

- Residential apartment	40 years
- Office buildings	50 years
- Leasehold improvements	5 to 10 years
- Furniture, fixtures and office equipment	4 to 5 years
- Motor vehicles	5 years

(l) Leased assets

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

Where the contract contains lease component(s) and non-lease component(s), the Bank has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Bank recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Bank enters into a lease in respect of a low-value asset, the Bank decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

1 Significant accounting policies (continued)

(l) Leased assets (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Bank will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the statement of financial position, the Bank presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

(m) Investment Property

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated to write off the cost of investment property over its estimated useful life using the straight-line method.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

The Bank uses the cost model in accordance with paragraph 32A of HKAS 40, "Investment Property". Transfers between investment property and fixed assets do not change the carrying amount of property transferred and do not change the cost of that property for measurement or disclosure purposes.

1 Significant accounting policies (continued)

(n) Repossessed assets

In the recovery of impaired loans and advances, the Bank may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Bank is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Bank does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances or their fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 Significant accounting policies (continued)

(o) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on the same taxable entity.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Foreign currency transactions

Transactions in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

1 Significant accounting policies (continued)

(r) Related parties

(1) A person, or a close member of that person's family, is related to the Bank if that person:

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personnel of the Bank or the Bank's parent.

(2) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Bank of which the other entity is a member).

(iii) Both entities 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 Bank or an entity related to the Bank.

(vi) The entity is controlled or jointly-controlled by a person identified in (1).

(vii) A person identified in (1)(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (continued)

(s) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Bank of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Bank. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to a provident fund under the Occupational Retirement Scheme Ordinance are recognised as an expense in profit or loss as incurred.

The Bank also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

(iii) Termination benefits are recognised when, and only when, the Bank demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 Interest income calculated using the effective interest method and interest expense

		2021		*2020*
(a) Interest income calculated using the effective interest method arising from				
Trade bills and advances to customers	$	62,532,780	$	60,728,548
Placements with banks		66,050		541,913
Investments		14,269,706		15,212,867
	$	76,868,536	$	76,483,328
(b) Interest expense arising from				
Deposits from customers	$	5,849,724	$	16,751,140
Deposits and balances from banks		2,906,838		3,038,549
Financing leased assets		12,825		19,029
	$	8,769,387	$	19,808,718

3 Fee and commission income

		2021		*2020*
Fee and commission income	$	29,134,442	$	25,226,031

Fee and commission income in 2021 and 2020 mainly comprised fee and commission income from L/C bills and export bills.

4 Other net income

		2021		*2020*
Net gains from dealing in foreign currencies	$	12,789,470	$	9,291,649
Others		11,599,959		10,105,008
	$	24,389,429	$	19,396,657

5 Operating expenses

(a) *Staff costs*

	2021	2020
Salaries and other benefits	$ 50,082,572	$ 54,374,633
Contribution to defined contribution scheme	2,591,379	2,559,505
	$ 52,673,951	$ 56,934,138

(b) *Depreciation*

	2021	2020
Depreciation	$ 4,343,337	$ 4,463,878

(c) *Other operating expenses*

	2021	2020
Premises and equipment expenses, excluding depreciation		
- rent and rates	$ 1,141,775	$ 1,160,022
- repairs and maintenance	788,121	493,551
Auditor's remuneration		
- audit services	1,293,780	1,384,645
- other services	690,330	261,555
Others	21,536,226	20,290,350
	$ 25,450,232	$ 23,590,123
	$ 82,467,520	$ 84,988,139

6 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021	2020
Directors' fees	$ 1,200,000	$ 1,200,000
Salaries, allowances and benefits in kind	4,979,300	3,347,650
Deferred compensation	-	650,000
Discretionary bonuses	102,675	152,295
Retirement scheme contributions	264,894	180,459
	$ 6,546,869	$ 5,530,404

7 Net charge for impairment allowances

		2021		*2020*
Trade bills and advances to customers	$	379,366	$	2,492,940
Cash and balances with banks		(95,006)		(83,445)
Placements with banks		-		(106,735)
Investments		(122,727)		(9,528)
Other financial assets		1,233		(581)
Loan commitments and financial guarantees issued		3,771		108,171
Net charge of impairment allowances	$	166,637	$	2,400,822

8 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation charged to profit or loss:

		2021		*2020*
Current tax - Hong Kong profits tax				
Provision for the year	$	6,516,858	$	2,543,649
Under/(Over)-provision in respect of prior years		97,994		(91,658)
	$	6,614,852	$	2,451,991
Deferred tax				
Origination and reversal of temporary differences		(107,533)		(329,268)
	$	6,507,319	$	2,122,723

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2020-21 subject to a maximum reduction of $10,000 for each business (2020: a maximum reduction of $20,000 was granted for the year of assessment 2019-20 and was taken into account in calculating the provision for 2020).

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates:

		2021		*2020*
Profit before tax	$	37,957,611	$	13,064,348
Notional tax on profit before taxation, calculated at 16.5%	$	6,263,006	$	2,155,617
Tax effect of non-deductible expenses		146,319		58,764
Under/(Over)-provision in respect of prior years		97,994		(91,658)
Actual tax expense charged to profit or loss	$	6,507,319	$	2,122,723

9 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2021			*2020*		
	Before-tax amount	*Tax credit* (note 20(b))	*Net-of-tax amount*	*Before-tax amount*	*Tax charge* (note 20(b))	*Net-of-tax amount*
Financial assets measured at FVOCI: net movement in FVOCI financial assets revaluation reserve	$ (4,105,129)	$ 670,718	$ (3,434,411)	$ 262,312	$ (58,291)	$ 204,021

10 Cash and balances with banks

	2021	*2020*
Cash in hand	$ 19,327	$ 83,618
Balances with banks	317,736,501	266,683,662
	$ 317,755,828	$ 266,767,280
Less: Impairment allowances		
- Stage 1	(5,008)	(100,014)
	$ 317,750,820	$ 266,667,266

11 Investments

	2021		
	Debt securities at fair value through other comprehensive income	*Debt securities at amortised cost*	*Total*
Debt securities:			
- Listed in Hong Kong	$ 47,709,156	$ 133,713,442	$ 181,422,598
- Listed outside Hong Kong	159,020,378	206,790,462	365,810,840
	$ 206,729,534	$ 340,503,904	$ 547,233,438
- Unlisted	$ 8,173,080	$ 49,453,771	$ 57,626,851
	$ 214,902,614	$ 389,957,675	$ 604,860,289
Less: Impairment allowances			
- Stage 1	$ -	$ (56,184)	$ (56,184)
	$ -	$ (56,184)	$ (56,184)
Total debt securities	$ 214,902,614	$ 389,901,491	$ 604,804,105

11 Investments (continued)

	2020		
	Debt securities at fair value through other comprehensive income	*Debt securities at amortised cost*	*Total*
Debt securities:			
- Listed in Hong Kong	$ 64,662,198	$ 167,354,024	$ 232,016,222
- Listed outside Hong Kong	149,934,080	166,016,351	315,950,431
	$ 214,596,278	$ 333,370,375	$ 547,966,653
- Unlisted	$ 8,416,230	$ 45,608,341	$ 54,024,571
	$ 223,012,508	$ 378,978,716	$ 601,991,224
Less: Impairment allowances			
- Stage 1	$ -	$ (138,743)	$ (138,743)
	$ -	$ (138,743)	$ (138,743)
Total debt securities	$ 223,012,508	$ 378,839,973	$ 601,852,481

12 Trade bills

(a) Trade bills less impairment:

	2021	*2020*
Gross trade bills	$ 1,051,275,296	$ 968,952,664
Less: Impairment allowances		
- Stage 1	(1,946,864)	(1,368,845)
- Stage 2	(2,602,211)	(1,205,171)
- Stage 3	-	-
	$ 1,046,726,221	$ 966,378,648

12 Trade bills (continued)

(b) Impaired trade bills:

	2021	2020
Gross impaired trade bills	$ -	$ -
Less: Impairment allowances		
- Stage 3	-	-
	$ -	$ -

13 Advances to customers

(a) Advances to customers less impairment:

	2021	2020
Gross advances to customers	$ 877,510,563	$ 738,778,124
Less: Impairment allowances		
- Stage 1	(2,703,922)	(1,911,812)
- Stage 2	(5,947,372)	(7,872,813)
- Stage 3	-	(3,218,000)
	$ 868,859,269	$ 725,775,499

(b) Impaired advances to customers:

	2021	2020
Gross impaired advances to customers	$ -	$ 11,042,975
Less: Impairment allowances		
- Stage 3	-	(3,218,000)
	$ -	$ 7,824,975

14 Property, plant and equipment

	Leasehold improvements	*Buildings*	*Furniture, fixtures, office equipment and motor vehicles*	*Right-of-use leased assets*	*Total*
Cost or valuation:					
At 1 January 2021	$ 12,115,828	$ 129,209,411	$ 6,966,091	$ 1,225,287	$ 149,516,617
Reclassification to investment properties	-	(23,583,830)	-	-	(23,583,830)
Additions	600,675	-	785,752	324,510	1,710,937
Disposals/written off	-	-	(21,759)	-	(21,759)
At 31 December 2021	$ 12,716,503	$ 105,625,581	$ 7,730,084	$ 1,549,797	$ 127,621,965
Representing:					
Cost	$ 12,716,503	$ 91,125,581	$ 7,730,084	$ 1,549,797	$ 113,121,965
Valuation	-	14,500,000	-	-	14,500,000
	$ 12,716,503	$ 105,625,581	$ 7,730,084	$ 1,549,797	$ 127,621,965
Aggregate depreciation:					
At 1 January 2021	$ 8,510,813	$ 34,119,573	$ 5,811,560	$ 426,684	$ 48,868,630
Reclassification to investment properties	-	(3,655,840)	-	-	(3,655,840)
Charge for the year	853,905	2,288,192	499,395	207,894	3,849,386
Written back on disposals	-	-	(15,584)	-	(15,584)
At 31 December 2021	$ 9,364,718	$ 32,751,925	$ 6,295,371	$ 634,578	$ 49,046,592
Net book value:					
At 31 December 2021	$ 3,351,785	$ 72,873,656	$ 1,434,713	$ 915,219	$ 78,575,373

14 Property, plant and equipment (continued)

	Leasehold improvements	*Buildings*	*Furniture, fixtures, office equipment and motor vehicles*	*Right-of-use leased assets*	*Total*
Cost or valuation:					
At 1 January 2020	$ 13,339,800	$ 129,209,411	$ 15,258,530	$ 1,225,287	$ 159,033,028
Additions	-	-	696,395	-	696,395
Disposals/written off	(1,223,972)	-	(8,988,834)	-	(10,212,806)
At 31 December 2020	$ 12,115,828	$ 129,209,411	$ 6,966,091	$ 1,225,287	$ 149,516,617
Representing:					
Cost	$ 12,115,828	$ 114,709,411	$ 6,966,091	$ 1,225,287	$ 135,016,617
Valuation	-	14,500,000	-	-	14,500,000
	$ 12,115,828	$ 129,209,411	$ 6,966,091	$ 1,225,287	$ 149,516,617
Aggregate depreciation:					
At 1 January 2020	$ 8,982,772	$ 31,330,051	$ 14,075,171	$ 213,723	$ 54,601,717
Charge for the year	752,013	2,789,522	709,382	212,961	4,463,878
Written back on disposals	(1,223,972)	-	(8,972,993)	-	(10,196,965)
At 31 December 2020	$ 8,510,813	$ 34,119,573	$ 5,811,560	$ 426,684	$ 48,868,630
Net book value:					
At 31 December 2020	$ 3,605,015	$ 95,089,838	$ 1,154,531	$ 798,603	$ 100,647,987

The buildings are held in Hong Kong under a long term lease.

The Bank’s residential apartment was purchased in 1984 for $1,362,270. It was revalued at $14,500,000 in 1994 on an open market value basis by an independent surveyor, Knight Frank Kan & Baillieu.

15 Investment properties

Cost or valuation:

At 1 January 2021	$	-
Reclassification from property, plant and equipment		23,583,830
Additions		-
Disposals/written off		-
At 31 December 2021	$	23,583,830

Representing:

Cost	$	23,583,830
Valuation		-
	$	23,583,830

Aggregate depreciation:

At 1 January 2021	$	-
Reclassification from property, plant and equipment		3,655,840
Charge for the year		493,951
Written back on disposals		-
At 31 December 2021	$	4,149,791

Net book value:

At 31 December 2021	$	19,434,039

The investment properties were revalued at $32,200,000 in December 2021 on an open market value basis by an independent surveyor, C S Surveyors Limited.

16 Other assets

	2021	*2020*
Customer liabilities under acceptances	$ 18,704,649	$ 29,593,590
Interest receivable	8,061,203	7,866,773
Others	10,436,396	3,357,605
Less: Impairment allowances		
- Stage 1	$ (10,632)	$ (7,833)
- Stage 2	-	(1,566)
	$ 37,191,616	$ 40,808,569

Included in other assets are intangible assets of $225,000 (2020: $225,000) relating to club debentures held by the Bank. There has been no impairment of intangible assets in either the current or preceding year.

17 Deposits and balances from banks

	2021	*2020*
Banks	$ 104,570,864	$ 20,932,441
Parent bank - time deposit	175,232,295	334,597,020
Repo	149,671,474	-
	$ 429,474,633	$ 355,529,461

18 Deposits from customers

	2021	*2020*
Time and call deposits	$ 1,650,664,399	$ 1,379,746,053

19 Other liabilities

		2021		*2020*
Acceptances outstanding	$	18,704,649	$	29,593,590
Interest payable		1,299,386		1,339,840
Imprest accounts		233,287,323		316,027,613
Margin on L/Cs and trade bills		51,731,065		59,766,916
Interest received in advance		2,134,429		430,842
Lease liability		929,615		810,305
Others		11,550,513		6,695,379
Add: Impairment allowances of loan commitments and financial guarantees issued				
- Stage 1		109,442		161,884
- Stage 2		75,124		18,911
	$	319,821,546	$	414,845,280

Lease liability

	31 December 2021		*31 December 2020*	
	Present value of the minimum lease payments	*Total minimum lease payments*	*Present value of the minimum lease payments*	*Total minimum lease payments*
Within 1 year	$ 197,547	$ 198,000	$ 216,221	$ 224,700
After 1 year but within 5 years	732,068	742,500	594,084	617,925
	$ 929,615	$ 940,500	$ 810,305	$ 842,625
Less: total future interest expenses		$ (10,885)		$ (32,320)
Present value of lease liabilities		$ 929,615		$ 810,305

20 Income tax in the statement of financial position

(a) Taxation (recoverable)/payable in the statement of financial position represents:

	2021	2020
Provision for Hong Kong profits tax for the year	$ 6,516,858	$ 2,543,649
Provisional profits tax paid	(2,667,935)	(2,818,305)
	$ 3,848,923	$ (274,656)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

	Differences between depreciation allowances and related depreciation	*Revaluation of properties*	*Stages 1 and 2 ECL*	*Fair value reserve*	*Total*
At 1 January 2021	$ (838,633)	$ 1,855,217	$ (2,109,733)	$ 327,147	$ (766,002)
Charged/(credited) to income statement	3,071	-	(110,604)	-	(107,533)
Credited to other comprehensive income	-	-	-	(670,718)	(670,718)
At 31 December 2021	$ (835,562)	$ 1,855,217	$ (2,220,337)	$ (343,571)	$ (1,544,253)
At 1 January 2020	$ (685,049)	$ 1,855,217	$ (1,934,049)	$ 268,856	$ (495,025)
Credited to income statement	(153,584)	-	(175,684)	-	(329,268)
Charged to other comprehensive income	-	-	-	58,291	58,291
At 31 December 2020	$ (838,633)	$ 1,855,217	$ (2,109,733)	$ 327,147	$ (766,002)

21 Material related party transactions

(a) Transactions with other related parties

During the year, the Bank entered into transactions with related parties in the ordinary course of business including the taking and placing of inter-bank deposits. These transactions were priced at relevant market rates at the time of each transaction.

The amounts included in the financial statements arising from transactions with related parties are as follows:

	Parent company		Fellow subsidiaries		Affiliates		Key management personnel	
	2021	*2020 (Restated)**	*2021*	*2020 (Restated)**	*2021*	*2020*	*2021*	*2020*
Commission rebate	$ -	$ -	$ -	$ -	$ 696,562	$ 379,243	$ -	$ -
Interest income	-	-	-	-	-	46,368	-	-
Interest expense	1,800,512	1,581,354	192,882	74,815	1,487	13,662	45,440	118,194
IT maintenance	-	-	4,489,428	4,826,775*	-	-	-	-
Other services	-	-	4,836,735	5,233,231*	-	-	-	-
Staff Provident Fund expense	-	-	-	-	-	545,087	-	-
Cash and balances with banks	111,100,299	7,342,178	829,522	380,548	31,351,848	15,491,125	-	-
Deposits and balances from banks	179,293,409	336,277,986	58,207	638,653	7,301	7,301	-	-
Other deposits	-	-	2,410,190	-	-	-	-	-
Time and call deposits	-	-	-	-	-	-	11,704,063	11,494,713
Imprest accounts	-	-	-	-	-	-	827,430	581,636

The aggregate unsecured facilities granted to connected parties who are (i) individuals did not exceed $1,000,000 per person or 5% of the capital base and (ii) firms, partnerships or non-listed companies (as specified in section 83(4) of the Banking Ordinance) did not exceed 10% of the capital base. The maximum aggregate unsecured facilities to all connected parties did not exceed 10% of the capital base. The secured lending to connected parties follows the supervisory policy manual on connected lending (CR-G-9) clause 2.5 issued by the HKMA.

The Bank has entered into an agreement with its parent company for the provision of banking software and related IT services.

* The comparative information is restated to align with current year presentation. See Note 32.

(b) Key management personnel remuneration

	2021	*2020*
Short-term employee benefits	$ 12,292,769	$ 11,652,215
Post-employment benefits	452,613	486,994
	$ 12,745,382	$ 12,139,209

Total remuneration is included in staff costs (see note 5(a)).

22 Loans to directors and entities connected with directors

Loans to directors of the Bank and entities connected with directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021	*2020*
Loans made by a third party under a guarantee given by the Bank	$ -	$ -
Loans made by the Bank	$ -	$ -

23 Share capital

	2021		*2020*	
	No. of shares (000)	$	*No. of shares* (000)	$
Ordinary shares issued and fully paid:				
At 1 January and 31 December	3,000	300,000,000	3,000	300,000,000

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Bank do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

24 Reserves and dividends

(a) Nature and purpose of reserves

(i) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

(ii) Property revaluation reserve

The property revaluation reserve has been set up and dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(k). The property revaluation reserve is not available for distribution to shareholders.

24 Reserves and dividends (continued)

(a) Nature and purpose of reserves (continued)

(iii) Regulatory reserve

The regulatory reserve is an appropriation from retained earnings and is maintained for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised under HKFRS 9, "*Financial instruments*". Transfer to and from the regulatory reserve are made directly through retained earnings and not the statement of comprehensive income.

(b) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Bank was $245,540,704 (2020: $224,080,412).

(c) Dividends

		2021		*2020 (Restated)**
Final dividend in respect of the current financial year proposed after the end of reporting period of $3.50 per ordinary share (2020: $3.33 per ordinary share)	$	10,500,000	$	9,990,000

The dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

		2021		*2020*
Final dividend in respect of the previous financial year, approved and paid during the year, of $3.33 per ordinary share (2020: $5 per ordinary share)	$	9,990,000	$	15,000,000

* The comparative information is restated to align with current year presentation. See Note 32.

25 Assets pledged as security

The following assets have been pledged as collateral.

		2021		*2020*
Balances with banks	$	1,261,422	$	944,373
Investments		83,917,342		27,792,369
	$	85,178,764	$	28,736,742

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

26 Contingent assets, liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2021	*2020*
Trade-related contingencies	$ 290,899,665	$ 356,094,706
Credit risk weighted amounts	$ 30,955,274	$ 45,860,240

Contingent liabilities and commitments are credit-related instruments which include letters of credit, confirmation of letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

27 Ultimate and immediate holding company

As at 31 December 2021, the directors consider the Bank's immediate parent to be Habib Bank AG Zurich and ultimate holding company to be Gefan Finanz AG. Both the parent and ultimate holding company are incorporated in Switzerland.

28 Financial risk management

This section presents information about the Bank's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.

- market risk: exposure to market variables such as interest rates and exchange rates.

  liquidity and funding risk: the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

28 Financial risk management (continued)

The Bank has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Introduction of new products and systems is approved by the Board of Directors after proper risk assessment. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

The Hong Kong Monetary Authority has introduced various relief measures to support borrowers affected by Covid-19. This is in the form of payment holidays on existing loans. The entire credit portfolio was regularly monitored and risk assessed taking multiple factors into consideration. The accounts were individually assessed and a cautious approach was considered wherever weaknesses were observed, management overlays were duly applied accordingly.

The Bank enhanced their existing models and parameters used in measuring the ECL. In particular, the Bank exercised judgement in considering multiple macroeconomic scenarios that reflect the changes in economic conditions and the probability weights assigned to the scenarios. If the effects of Covid-19 cannot be reflected in the models, top-down management overlays or adjustments were duly considered and approved.

(a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Credit Committee, chaired by the Chief Executive, monitors compliance with statutory and internal limits on credit exposures. The internal auditor carries out regular audits to ensure compliance with the stated policies and procedures. To strengthen the independence of the audit function, the internal auditor of the Bank reports directly to the Board Audit & Compliance Committee.

(A) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments.

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

Unless specifically indicated, for financial assets, the amounts in the table represent net carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms “Stage 1”, “Stage 2” and “Stage 3” is included in Note 1(f)(vii).

(i) Credit quality of trade bills and advances to customers

The following table sets out information about the credit quality of trade bills and advances to customers.

	2021			
Trade bills at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 947,430,949	$ 103,844,347	$ -	$ 1,051,275,296
Special Mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Impairment allowances	(1,946,864)	(2,602,211)	-	(4,549,075)
Carrying amount	$ 945,484,085	$ 101,242,136	$ -	$ 1,046,726,221

	2020			
Trade bills at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 953,179,049	$ 2,663,370	$ -	$ 955,842,419
Special Mention	-	13,110,245	-	13,110,245
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Impairment allowances	(1,368,845)	(1,205,171)	-	(2,574,016)
Carrying amount	$ 951,810,204	$ 14,568,444	$ -	$ 966,378,648

	2021			
Advances to customers at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 747,415,588	$ 111,965,251	$ -	$ 859,380,839
Special Mention	-	18,129,724	-	18,129,724
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Impairment allowances	(2,703,922)	(5,947,372)	-	(8,651,294)
Carrying amount	$ 744,711,666	$ 124,147,603	$ -	$ 868,859,269

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(i) Credit quality of trade bills and advances to customers (continued)

Advances to customers at amortised cost	*2020* Stage 1	Stage 2	Stage 3	Total
Pass	$ 693,322,330	$ 14,662,181	$ -	$ 707,984,511
Special Mention	-	19,750,638	-	19,750,638
Substandard	-	-	-	-
Doubtful	-	-	11,042,975	11,042,975
Loss	-	-	-	-
Impairment allowances	(1,911,812)	(7,872,813)	(3,218,000)	(13,002,625)
Carrying amount	$ 691,410,518	$ 26,540,006	$ 7,824,975	$ 725,775,499

Trade bills at amortised cost – gross carrying amount	*2021* Stage 1	Stage 2	Stage 3	Total
Current	$ 938,234,651	$ 103,844,347	$ -	$ 1,042,078,998
Overdue < 30 days	9,196,298	-	-	9,196,298
Overdue > 30 days	-	-	-	-
Total	$ 947,430,949	$ 103,844,347	$ -	$ 1,051,275,296

Trade bills at amortised cost – gross carrying amount	*2020* Stage 1	Stage 2	Stage 3	Total
Current	$ 929,676,863	$ 15,773,615	$ -	$ 945,450,478
Overdue < 30 days	23,502,186	-	-	23,502,186
Overdue > 30 days	-	-	-	-
Total	$ 953,179,049	$ 15,773,615	$ -	$ 968,952,664

Advances to customers at amortised cost – gross carrying amount	*2021* Stage 1	Stage 2	Stage 3	Total
Current	$ 744,978,965	$ 125,636,163	$ -	$ 870,615,128
Overdue < 30 days	2,436,623	-	-	2,436,623
Overdue > 30 days	-	4,458,812	-	4,458,812
Total	$ 747,415,588	$ 130,094,975	$ -	$ 877,510,563

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(i) Credit quality of trade bills and advances to customers (continued)

			2020	
Advances to customers at amortised cost – gross carrying amount	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Current	$ 685,520,396	$ 27,372,807	$ 3,215,206	$ 716,108,409
Overdue < 30 days	7,801,934	7,040,012	-	14,841,946
Overdue > 30 days	-	-	7,827,769	7,827,769
Total	$ 693,322,330	$ 34,412,819	$ 11,042,975	$ 738,778,124

(ii) Credit quality of other financial assets

The following table sets out information about the credit quality of other financial assets. The amounts in the table represent gross carrying amount.

			2021	
Cash and balances with banks at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 317,755,828	$ -	$ -	$ 317,755,828
Impairment allowances	(5,008)	-	-	(5,008)
Carrying amount	$ 317,750,820	$ -	$ -	$ 317,750,820

			2020	
Cash and balances with banks at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 266,767,280	$ -	$ -	$ 266,767,280
Impairment allowances	(100,014)	-	-	(100,014)
Carrying amount	$ 266,667,266	$ -	$ -	$ 266,667,266

As at 31 December 2021, there were no overdue or impaired cash and balances with banks (2020: Nil).

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(ii) Credit quality of other financial assets (continued)

	2021			
Debt investments at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
AAA	$ -	$ -	$ -	$ -
AA+ to AA-	-	-	-	-
A+ to A-	183,993,049	-	-	183,993,049
BBB+ to BBB-	205,964,626	-	-	205,964,626
Impairment allowances	(56,184)	-	-	(56,184)
Carrying amount	$ 389,901,491	$ -	$ -	$ 389,901,491

	2020			
Debt investments at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
AAA	$ -	$ -	$ -	$ -
AA+ to AA-	7,790,480	-	-	7,790,480
A+ to A-	228,043,816	-	-	228,043,816
BBB+ to BBB-	143,144,420	-	-	143,144,420
Impairment allowances	(138,743)	-	-	(138,743)
Carrying amount	$ 378,839,973	$ -	$ -	$ 378,839,973

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(ii) Credit quality of other financial assets (continued)

Debt investments at FVOCI	*2021* Stage 1	Stage 2	Stage 3	Total
AAA	$ -	$ -	$ -	$ -
AA+ to AA-	-	-	-	-
A+ to A-	23,738,320	-	-	23,738,320
BBB+ to BBB-	191,164,294	-	-	191,164,294
Carrying amount	$ 214,902,614	$ -	$ -	$ 214,902,614
Impairment allowances	$ 30,431	$ -	$ -	$ 30,431

Debt investments at FVOCI	*2020* Stage 1	Stage 2	Stage 3	Total
AAA	$ -	$ -	$ -	$ -
AA+ to AA-	10,046,500	-	-	10,046,500
A+ to A-	50,823,173	-	-	50,823,173
BBB+ to BBB-	162,142,835	-	-	162,142,835
Carrying amount	$ 223,012,508	$ -	$ -	$ 223,012,508
Impairment allowances	$ 70,599	$ -	$ -	$ 70,599

As at 31 December 2021, there were no overdue or impaired debt investments (2020: Nil).

Other financial assets at amortised cost	*2021* Stage 1	Stage 2	Stage 3	Total
Pass	$ 26,765,852	$ -	$ -	$ 26,765,852
Special Mention	-	-	-	-
Impairment allowances	(10,632)	-	-	(10,632)
Carrying amount	$ 26,755,220	$ -	$ -	$ 26,755,220

Other financial assets at amortised cost	*2020* Stage 1	Stage 2	Stage 3	Total
Pass	$ 33,482,113	$ -	$ -	$ 33,482,113
Special Mention	-	3,978,250	-	3,978,250
Impairment allowances	(7,833)	(1,566)	-	(9,399)
Carrying amount	$ 33,474,280	$ 3,976,684	$ -	$ 37,450,964

28 Financial risk management (continued)

(a) Credit risk (continued)

(A) Credit quality analysis (continued)

(ii) Credit quality of other financial assets (continued)

	2021			
Loan commitments and financial guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 279,965,564	$ 10,749,535	$ -	$ 290,715,099
Special Mention	-	-	-	-
Carrying amount	$ 279,965,564	$ 10,749,535	$ -	$ 290,715,099
Impairment allowances	109,442	75,124	-	184,566

	2020			
Loan commitments and financial guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Pass	$ 352,972,286	$ -	$ -	$ 352,972,286
Special Mention	-	2,941,425	-	2,941,425
Carrying amount	$ 352,972,286	$ 2,941,425	$ -	$ 355,913,711
Impairment allowances	161,884	18,911	-	180,795

The following table shows an analysis of counterparty credit exposures arising from derivative transactions.

	Over-the-counter	
In HK$	*Notional amount*	*Fair value*
2021		
Derivative assets	142,394,707	76,702
Derivative liabilities	142,322,625	4,620
2020		
Derivative assets	125,792,050	8,692
Derivative liabilities	125,812,892	29,534

28 Financial risk management (continued)

(a) Credit risk (continued)

(B) Concentration risk

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

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2021	*2020*
Balances with banks	$ 317,750,820	$ 266,583,648
Placements with banks	-	-
Investments	604,804,105	601,852,481
Trade bills	1,046,726,221	966,378,648
Advances to customers	868,859,269	725,775,499
Other assets	37,191,616	40,808,569
	$2,875,332,031	$2,601,398,845

Maximum exposure to credit risk relating to items unrecorded in the statement of financial position are as follows:

	2021	*2020*
Direct credit substitutes	$ -	$ -
Trade-related contingencies	290,899,665	356,094,706
Commitments excluding those that are unconditionally cancellable without prior notice	-	-
	$ 290,899,665	$ 356,094,706

28 Financial risk management (continued)

(a) Credit risk (continued)

(C) Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures.

Trade bills and advances to customers

The general creditworthiness of a commercial / small and medium enterprises ("SME") customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that the borrowers provide it. The Bank may take collateral in the form of mortgages over property and liquid assets.

The valuation of collateral is updated during the review or enhancement process. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2021, the net carrying amount of credit-impaired trade bills and advances to customers amounted to HKD nil (2020: HKD 11.0 million) and the value of identifiable collateral (mainly residential and commercial properties) held against those trade bills and advances to customers amounted to HKD nil (2020: HKD 7.2 million).

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Trade bills and advances to customers

- Default on a single facility amounts to default on all facilities belonging to the same customer, with the first default event considered as the "default date".

- Customers with facilities that have closed during the performance period are considered to be performing unless they are tagged as "for adjustment purpose" ("FAP") 11 – 13 or have days past due exceeding 89 days during the performance period.

- Since the "write-off date" is provided as at year end, it is assumed to be the last day of the reporting period.

- Customers with a "write-off date" are assumed to have obtained write-off status due to non-performance and are transferred to default status on "settlement date".

- In instances where the "maturity date" exceeds the "write-off date", the date of closure is considered to be the 'write off date'.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank's business model is relationship-based lending in which the customer is evaluated and monitored as a single entity. Hence, weaknesses evident in an account is considered relevant for the entire customer portfolio.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

It is defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

According to the Bank's policy, an FAP tag is used for classification of facilities to monitor customer performance. FAP tag 11 to 13 are used to indicate non-performing accounts. Performance of non-performing accounts may differ significantly due to different judgmental criteria used to tag each individual account.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Commercial / SME exposures	**All exposures**
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. - Data from credit reference agencies, press articles, changes in external credit ratings. - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- Payment record – this includes overdue status as well as a range of variables about payment ratios - Utilisation of the granted limit - Existing and forecast changes in business, financial and economic conditions

Generating the term structure of probability of default ("PD")

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a general indicator, there is deemed to be a significant increase in credit risk of a particular exposure since initial recognition if, based on the Bank's quantitative modelling, the FAP rating has deteriorated as follows:

Stage 2

Original FAP Rating Grade	Size of notch downgrade which is considered to indicate a significant increase in credit risk
1,2,3	3 Notch Downgrade
4,5,6	2 Notch Downgrade
7,8	1 Notch Downgrade

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for certain types of exposure, more than 15 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Definition of Default

The Bank considers a financial asset to be in default when

- The borrower is more than 90 days past due on contractual payments; or

- The borrower has been tagged as FAP 11, 12 or 13 based on observed payment delays or early warning indicators detected by the Country Credit function's portfolio monitoring activities.

While developing the model, an "ever default" definition has been employed in order to capture all accounts obtaining default status over a twelve-month period, regardless of whether the account ceases to be in default at the end of the period.

Incorporation of forward-looking information

The economic scenarios used as at 31 December 2021 included the following key indicators for the years ending 31 December 2022 to 2026.

Year	Real Exports of Goods and Services (HKD'bn)	Implicit price deflator of GDP
2022	6,040	103
2023	6,358	105
2024	6,581	106
2025	6,675	108
2026	6,753	110

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default ("PD") at the reporting date based on the modified terms; with

- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. This is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews the performance of the borrower.

For modified financial assets, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, this is a qualitative indicator of a significant increase in credit risk and an expectation that may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (“PD”);
- loss given default (“LGD”); and
- exposure at default (“EAD”).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading ‘Generating the term structure of PD’.

LGD is the magnitude of the likely loss if there is a default. For loans and trade bills, the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. For investments, the Bank estimates LGD based on an external benchmark provided by Basel for certain types of exposure due to zero internal default history.

The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments and financial guarantees, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loss allowance reconciliation

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: Stage 1 ECL, Stage 2 ECL and Stage 3 ECL are included in note 1(f)(vii).

	2021			
Trade bills	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 1,368,845	$ 1,205,170	$ -	$ 2,574,015
Transfer to Stage 1 ECL	1,205,170	(1,205,170)	-	-
Transfer to Stage 2 ECL	(182,540)	182,540	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	273,403	-	-	273,403
Financial assets that have been derecognised	(85,051)	-	-	(85,051)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(632,963)	2,419,671	-	1,786,708
Balance at 31 December	$ 1,946,864	$ 2,602,211	$ -	$ 4,549,075

	2020			
Trade bills	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 1,669,325	$ 363,232	$ 4,012,196	$ 6,044,753
Transfer to Stage 1 ECL	358,873	(358,873)	-	-
Transfer to Stage 2 ECL	(48,868)	48,868	-	-
Transfer to Stage 3 ECL	-	(3,432)	3,432	-
New financial assets originated	469,820	31,135	-	500,955
Financial assets that have been derecognised	(460,500)	(927)	(164,360)	(625,787)
Write-offs	-	-	(3,851,268)	(3,851,268)
Changes in models	(2,565,449)	(133,126)	-	(2,698,575)
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	1,945,644	1,258,294	-	3,203,938
Balance at 31 December	$ 1,368,845	$ 1,205,171	$ -	$ 2,574,016

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

	2021			
Advances to customers	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 1,911,812	$ 7,872,813	$ 3,218,000	$13,002,625
Transfer to Stage 1 ECL	4,554,121	(4,554,121)	-	-
Transfer to Stage 2 ECL	(386,840)	386,840	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	712,982	31,135	-	744,117
Financial assets that have been derecognised	(128,558)	(2,914,504)	(829,000)	(3,872,062)
Write-offs	-	-	(3,589,000)	(3,589,000)
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(3,959,595)	5,125,209	1,200,000	2,365,614
Balance at 31 December	$ 2,703,922	$ 5,947,372	$ -	$ 8,651,294

	2020			
Advances to customers	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 4,812,690	$ 4,284,595	$11,808,602	$20,905,887
Transfer to Stage 1 ECL	766,830	(766,830)	-	-
Transfer to Stage 2 ECL	(111,147)	111,147	-	-
Transfer to Stage 3 ECL	-	(1,003,771)	1,003,771	-
New financial assets originated	348,241	-	-	348,241
Financial assets that have been derecognised	(285,867)	(1,263,944)	(141,079)	(1,690,890)
Write-offs	-	-	(10,844,229)	(10,844,229)
Changes in models	(2,023,920)	(2,283,485)	-	(4,307,405)
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(1,595,015)	8,795,101	1,390,935	8,591,021
Balance at 31 December	$ 1,911,812	$ 7,872,813	$ 3,218,000	$13,002,625

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

	2021			
Cash and balances with banks	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 100,014	$ -	$ -	$ 100,014
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	7	-	-	7
Financial assets that have been derecognised	(505)	-	-	(505)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(94,508)	-	-	(94,508)
Balance at 31 December	$ 5,008	$ -	$ -	$ 5,008

	2020			
Cash and balances with banks	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 183,459	$ -	$ -	$ 183,459
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	6	-	-	6
Financial assets that have been derecognised	(303)	-	-	(303)
Write-offs	-	-	-	-
Changes in models	(257,373)	-	-	(257,373)
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	174,225	-	-	174,225
Balance at 31 December	$ 100,014	$ -	$ -	$ 100,014

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Placements with banks	*2021* Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ -	$ -	$ -	$ -
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	$ -	$ -	$ -	$ -

Placements with banks	*2020* Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ 106,735	$ -	$ -	$ 106,735
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	-	-	-	-
Financial assets that have been derecognised	(106,735)	-	-	(106,735)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
Balance at 31 December	$ -	$ -	$ -	$ -

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Investments measured at amortised cost	2021 *Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 138,743	$ -	$ -	$ 138,743
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	16,865	-	-	16,865
Financial assets that have been derecognised	(29,591)	-	-	(29,591)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(69,833)	-	-	(69,833)
Balance at 31 December	$ 56,184	$ -	$ -	$ 56,184

Investments measured at amortised cost	2020 *Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 57,306	$ -	$ -	$ 57,306
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	130,134	-	-	130,134
Financial assets that have been derecognised	(54,505)	-	-	(54,505)
Write-offs	-	-	-	-
Changes in models	40,275	-	-	40,275
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(34,467)	-	-	(34,467)
Balance at 31 December	$ 138,743	$ -	$ -	$ 138,743

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Investments measured at FVOCI	*2021* Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ 70,599	$ -	$ -	$ 70,599
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	17,475	-	-	17,475
Financial assets that have been derecognised	(34,873)	-	-	(34,873)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(22,770)	-	-	(22,770)
Balance at 31 December	$ 30,431	$ -	$ -	$ 30,431

Investments measured at FVOCI	*2020* Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ 161,564	$ -	$ -	$ 161,564
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	60,738	-	-	60,738
Financial assets that have been derecognised	(123,692)	-	-	(123,692)
Write-offs	-	-	-	-
Changes in models	33,537	-	-	33,537
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(61,548)	-	-	(61,548)
Balance at 31 December	$ 70,599	$ -	$ -	$ 70,599

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

	2021			
Other financial assets	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 7,833	$ 1,566	$ -	$ 9,399
Transfer to Stage 1 ECL	1,566	(1,566)	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	3,260	-	-	3,260
Financial assets that have been derecognised	(720)	-	-	(720)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(1,307)	-	-	(1,307)
Balance at 31 December	$ 10,632	$ -	$ -	$ 10,632

	2020			
Other financial assets	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total*
Balance at 1 January	$ 9,979	$ -	$ -	$ 9,979
Transfer to Stage 1 ECL	-	-	-	-
Transfer to Stage 2 ECL	-	-	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	4,826	1,566	-	6,392
Financial assets that have been derecognised	(851)	-	-	(851)
Write-offs	-	-	-	-
Changes in models	(9,264)	(33,798)	-	(43,062)
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	3,143	33,798	-	36,941
Balance at 31 December	$ 7,833	$ 1,566	$ -	$ 9,399

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

Loan commitments and financial guarantees issued	2021 Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ 161,884	$ 18,911	$ -	$ 180,795
Transfer to Stage 1 ECL	18,049	(18,049)	-	-
Transfer to Stage 2 ECL	(3,546)	3,546	-	-
Transfer to Stage 3 ECL	-	-	-	-
New financial assets originated	24,614	2,079	-	26,693
Financial assets that have been derecognised	(16,138)	(861)	-	(16,999)
Write-offs	-	-	-	-
Changes in models	-	-	-	-
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(75,421)	69,498	-	(5,923)
Balance at 31 December	$ 109,442	$ 75,124	$ -	$ 184,566

Loan commitments and financial guarantees issued	2020 Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total
Balance at 1 January	$ 65,852	$ 6,772	$ -	$ 72,624
Transfer to Stage 1 ECL	6,401	(6,401)	-	-
Transfer to Stage 2 ECL	(19)	19	-	-
Transfer to Stage 3 ECL	-	(371)	371	-
New financial assets originated	75,910	2,079	-	77,989
Financial assets that have been derecognised	(41,942)	-	(371)	(42,313)
Write-offs	-	-	-	-
Changes in models	75,985	9,717	-	85,702
Foreign exchange	-	-	-	-
Net remeasurement of loss allowance	(20,303)	7,096	-	(13,207)
Balance at 31 December	$ 161,884	$ 18,911	$ -	$ 180,795

28 Financial risk management (continued)

(a) Credit risk (continued)

(D) Amounts arising from ECL (continued)

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

		2021			2020		
	Note	*Gross amounts of financial instruments in the statement of financial position* '000	*Related financial instruments that have not been offset in the statement of financial position* '000	*Net amount* '000	*Gross amounts of financial instruments in the statement of financial position* '000	*Related financial instruments that have not been offset in the statement of financial position* '000	*Net amount* '000
Financial assets							
Trade bills	12(a)	$ 1,051,275	$ 119,965	$ 931,310	$ 968,953	$ 91,183	$ 877,770
Advances to customers	13(a)	877,511	227,465	650,046	738,778	193,173	545,605
		$ 1,928,786	$ 347,430	$ 1,581,356	$ 1,707,731	$ 284,356	$ 1,423,375
Financial liabilities							
Deposit from customers	18	$ 1,650,664	$ 272,614	$ 1,378,050	$ 1,379,746	$ 209,220	$ 1,170,526
Imprest and margin accounts	19	285,018	74,816	210,202	375,795	75,136	300,659
		$ 1,935,682	$ 347,430	$ 1,588,252	$ 1,755,541	$ 284,356	$ 1,471,185

(b) Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The principal derivative instruments used by the Bank are foreign exchange rate contracts for hedging positions arising from commercial transactions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

28 Financial risk management (continued)

(b) Market risk management (continued)

(i) Currency risk

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof has been largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate open positions exceeding amount equivalent to US$1 million cannot be left overnight in currencies other than US$. All exposures are managed by the Finance Department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

Foreign exchange exposures arising from non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	2021			*2020*		
In thousands of HKD equivalents	*Total*	*United States Dollars*	*Other foreign currencies*	*Total*	*United States Dollars*	*Other foreign currencies*
Assets						
Cash and balances with banks	$ 270,834	$ 207,908	$ 62,926	$ 223,575	$ 179,877	$ 43,698
Investments	546,676	546,676	-	520,472	520,472	-
Trade bills	1,051,275	1,048,553	2,722	968,953	955,703	13,250
Advances to customers	592,051	579,517	12,534	454,551	445,133	9,418
Other assets	18,705	18,705	-	30,349	30,349	-
Spot assets	$ 2,479,541	$ 2,401,359	$ 78,182	$ 2,197,900	$ 2,131,534	$ 66,366
Liabilities						
Deposits and balances of banks	$ (427,209)	$ (427,209)	$ -	$ (354,328)	$ (354,328)	$ -
Deposits from customers	(1,588,857)	(1,519,595)	(69,262)	(1,308,983)	(1,254,735)	(54,248)
Other liabilities	(288,798)	(271,831)	(16,967)	(388,270)	(367,312)	(20,958)
Spot liabilities	$ (2,304,864)	$ (2,218,635)	$ (86,229)	$ (2,051,581)	$ (1,976,375)	$ (75,206)
Forward purchases	$ 9,772	$ -	$ 9,772	$ 9,500	$ -	$ 9,500
Forward sales	(142,368)	(142,368)	-	(125,791)	(125,791)	-
	$ (132,596)	$ (142,368)	$ 9,772	$ (116,291)	$ (125,791)	$ 9,500
Net non-structural position	$ 42,081	$ 40,356	$ 1,725	$ 30,028	$ 29,368	$ 660

28 Financial risk management (continued)

(b) Market risk management (continued)

(i) Currency risk (continued)

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk. Details of such transactions appear in the above table.

As the majority (97%) of the Bank's financial instruments at 31 December 2021 and 2020 were denominated in either Hong Kong dollars ("HK$") or United States dollars ("US$") and the US$ is pegged to the HK$, management does not consider there to be any significant currency risk associated with them.

(ii) Interest rate risk

The Bank's interest rate risk positions arise from trade finance, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the statement of financial position. Management monitors the weighted average rates on deposits, lending and placements to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repriceable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

The tables below summarise the Bank's on-balance sheet exposure to interest rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	2021							*2020*						
Interest sensitivity of assets and liabilities	*Effective interest rate*	*Total*	*3 months or less*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest bearing*	*Effective interest rate*	*Total*	*3 months or less*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest bearing*
In thousands of HKD equivalents														
Assets														
Cash and balances with banks	-	$ 317,751	$ -	$ -	$ -	$ -	$ 317,751		$ 266,667	$ -	$ -	$ -	$ -	$ 266,667
Placements with banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	2.20%	604,804	177,653	231,492	166,664	29,051	(56)	2.68%	601,852	21,268	159,305	421,418	-	(139)
Trade bills	2.85%	1,046,726	752,516	298,599	158	-	(4,547)	3.38%	966,379	602,936	360,777	5,240	-	(2,574)
Advances to customers	4.06%	868,859	589,273	160,728	127,512	-	(8,654)	4.38%	725,775	489,024	111,757	137,997	-	(13,003)
Tax paid in advance	-	-	-	-	-	-	-	-	275	-	-	-	-	275
Deferred tax assets	-	1,544	-	-	-	-	1,544	-	766	-	-	-	-	766
Fixed assets	-	78,575	-	-	-	-	78,575	-	100,648	-	-	-	-	100,648
Investment properties	-	19,434	-	-	-	-	19,434	-	-	-	-	-	-	-
Other assets	-	37,192	-	-	-	-	37,192	-	40,809	-	-	-	-	40,809
Total assets		$2,974,885	$1,519,442	$ 690,819	$ 294,334	$ 29,051	$ 441,239		$2,703,171	$1,113,228	$ 631,839	$ 564,655	$ -	$ 393,449
Liabilities														
Deposits and balances of banks	0.58%	$ 429,475	$ 320,540	$ 101,845	$ -	$ -	$ 7,090	1.41%	$ 355,530	$ 343,427	$ 9,776	$ -	$ -	$ 2,327
Deposits from customers	0.45%	1,650,664	1,289,324	358,692	2,648	-	-	1.23%	1,379,746	1,146,708	233,038	-	-	-
Current taxation	-	3,849	-	-	-	-	3,849	-	-	-	-	-	-	-
Other liabilities	-	319,822	-	-	-	-	319,822	-	414,845	-	-	-	-	414,845
Total liabilities		$2,403,810	$1,609,864	$ 460,537	$ 2,648	$ -	$ 330,761		$2,150,121	$1,490,135	$ 242,814	$ -	$ -	$ 417,172
Net Re-Pricing gap		$ 571,075	$ (90,422)	$ 230,282	$ 291,686	$ 29,051	$ 110,478		$ 553,050	$ (376,907)	$ 389,025	$ 564,655	$ -	$ (23,723)

28 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

At 31 December 2021, it is estimated that a general increase/decrease of 50 basis points in interest rates (2020: 50 basis points in interest rates), with all other variables held constant, would not significantly impact the Bank's profit after taxation (2020: not significantly impact).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual reporting date.

(c) Liquidity risk management

Liquidity relates to the ability of a company to meet its obligations as they fall due.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity ratio is complied with. The Bank's average liquidity maintenance ratio in 2021 of 75.59% (2020: liquidity maintenance ratio of 88.78%) was well above the statutory minimum ratio of 25%. During the year, due to uncertainties surrounding the Covid-19 pandemic, the Bank managed its liquidity with caution. Liquidity stress tests were conducted under several assumptions and the results were presented to the Asset and Liability Committee to ensure the Bank has sufficient liquidity to meet unexpected and material cash outflows in relation to the pandemic.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

28 Financial risk management (continued)

(c) Liquidity risk management (continued)

Analysis of non derivative assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

2021

In thousands of HKD equivalents	*Total*	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Indefinite*
Assets								
Cash and balances with banks	$ 317,751	$ 317,751	$ -	$ -	$ -	$ -	$ -	$ -
Investments	604,804	-	12,812	157,021	239,274	166,649	29,048	-
Trade bills	1,046,726	16,147	285,209	447,922	297,291	157	-	-
Advances to customers	868,859	9,335	140,956	433,198	159,128	126,242	-	-
Tax paid in advance	-	-	-	-	-	-	-	-
Deferred tax assets	1,544	-	-	-	-	-	-	1,544
Fixed assets	78,575	-	-	-	-	-	-	78,575
Investment properties	19,434	-	-	-	-	-	-	19,434
Other assets	37,192	10,436	13,308	13,290	158	-	-	-
Total assets	$ 2,974,885	$ 353,669	$ 452,285	$ 1,051,431	$ 695,851	$ 293,048	$ 29,048	$ 99,553
Liabilities								
Deposits and balances of banks	$ 429,475	$ 7,090	$ 15,598	$ 304,942	$ 101,845	$ -	$ -	$ -
Deposits from customers	1,650,664	338,060	367,203	584,061	358,692	2,648	-	-
Current taxation	3,849	-	-	-	-	-	-	3,849
Other liabilities	319,822	298,888	6,548	13,297	159	930	-	-
Total liabilities	$ 2,403,810	$ 644,038	$ 389,349	$ 902,300	$ 460,696	$ 3,578	$ -	$ 3,849
Net liability gap	$ 571,075	$ (290,369)	$ 62,936	$ 149,131	$ 235,155	$ 289,470	$ 29,048	$ 95,704

2020

In thousands of HKD equivalents	*Total*	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Indefinite*
Assets								
Cash and balances with banks	$ 266,667	$ 266,667	$ -	$ -	$ -	$ -	$ -	$ -
Investments	601,852	-	-	21,263	159,268	421,321	-	-
Trade bills	966,379	25,928	193,344	382,089	359,792	5,226	-	-
Advances to customers	725,775	27,466	97,450	354,535	110,223	136,101	-	-
Tax paid in advance	275	-	-	-	-	-	-	275
Deferred tax assets	766	-	-	-	-	-	-	766
Fixed assets	100,648	-	-	-	-	-	-	100,648
Investment properties	-	-	-	-	-	-	-	-
Other assets	40,809	3,357	14,905	20,903	1,644	-	-	-
Total assets	$ 2,703,171	$ 323,418	$ 305,699	$ 778,790	$ 630,927	$ 562,648	$ -	$ 101,689
Liabilities								
Deposits and balances of banks	$ 355,530	$ 2,327	$ 303,890	$ 39,537	$ 9,776	$ -	$ -	$ -
Deposits from customers	1,379,746	183,648	385,434	577,626	233,038	-	-	-
Current taxation	-	-	-	-	-	-	-	-
Other liabilities	414,845	383,101	8,380	20,909	1,645	810	-	-
Total liabilities	$ 2,150,121	$ 569,076	$ 697,704	$ 638,072	$ 244,459	$ 810	$ -	$ -
Net liability gap	$ 553,050	$ (245,658)	$ (392,005)	$ 140,718	$ 386,468	$ 561,838	$	$ 101,689

The total gross undiscounted cash flows for the above liabilities are the same as shown above except for deposits and balances of banks and deposits from customers which are as follows:

2021

In thousands of HKD equivalents	*Carrying amount*	*Total contractual undiscounted cash flows*	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Indefinite*
Deposits and balances of banks	$ 429,475	$ 430,192	$ 7,090	$ 15,605	$ 305,364	$ 102,133	$ -	$ -
Deposits from customers	1,650,664	1,652,854	338,060	367,708	585,005	359,427	2,654	-
	$ 2,080,139	$ 2,083,046	$ 345,150	$ 383,313	$ 890,369	$ 461,560	$ 2,654	$ -

2020

In thousands of HKD equivalents	*Carrying amount*	*Total contractual undiscounted cash flows*	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Indefinite*
Deposits and balances of banks	$ 355,530	$ 355,823	$ 2,327	$ 304,095	$ 39,596	$ 9,805	$ -	$ -
Deposits from customers	1,379,746	1,382,272	191,399	386,478	570,962	233,433	-	-
	$ 1,735,276	$ 1,738,095	$ 193,726	$ 690,573	$ 610,558	$ 243,238	$ -	$ -

28 Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of potential loss arising from inadequate or failure in internal processes, people and systems or from external events.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk and Credit Management Committee is in place to manage operational risks.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

(e) Capital management

The HKMA sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the HKMA requires the Bank to maintain prescribed ratios of capital to total risk-weighted assets. The Bank’s operations are categorised as banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Bank’s primary objectives when managing capital are to safeguard the Bank’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The Bank considers capital to include share capital and reserves.

The Bank monitors its capital adequacy ratios on a quarterly basis. The capital adequacy ratios are computed as specified by the HKMA for its regulatory purposes and are in accordance with the Banking (Capital) (Amendment) Rules 2012 and 2013 of the Hong Kong Banking Ordinance which came into effect from 1 January 2013 and 30 June 2013 respectively.

The Bank has complied with all capital requirements throughout the years ended 31 December 2021 and 2020 and is well above the minimum required ratio set by the HKMA.

29 Fair values of financial instruments

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Unadjusted quoted prices in active markets for identical instruments at the measurement date.

- Level 2 - Observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 - Fair value measured using significant unobservable inputs.

(b) Fair value

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value is categorised:

	2021			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets at fair value through other comprehensive income				
- Debt securities	$ -	$ 214,902,614	$ -	$ 214,902,614
Derivative financial instruments:				
- Forward exchange contracts	-	76,702	-	76,702
	$ -	$ 214,979,316	$ -	$ 214,979,316
Liabilities				
Derivative financial instruments:				
- Forward exchange contracts	$ -	$ 4,620	$ -	$ 4,620

29 Fair values of financial instruments (continued)

(b) Fair value (continued)

	2020			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets at fair value through other comprehensive income				
- Debt securities	$ -	$ 223,012,508	$ -	$ 223,012,508
Derivative financial instruments:				
- Forward exchange contracts	-	8,692	-	8,692
	$ -	$ 223,021,200	$ -	$ 223,021,200
Liabilities				
Derivative financial instruments:				
- Forward exchange contracts	$ -	$ 29,534	$ -	$ 29,534

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

30 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Notes 28(a)(D) and 29 contain information about the assumptions and their risk factors relating to impairment and fair value of financial instruments.

(i) Impairment losses

Note 28(a)(D): impairment of financial instruments involves determining inputs into the ECL measurement model, including incorporation of forward-looking information.

(ii) Valuation of financial instruments

Note 29: The Bank’s accounting policy for valuation of financial instruments is included in Note 1. The fair value of the financial instruments is mainly based on the quoted market price on an active market.

30 Accounting estimates and judgements (continued)

(b) Critical accounting judgements in applying the Bank's accounting policies

Certain critical accounting judgements in applying the Bank's accounting policies are described below:

(i) Classification of financial assets

Note 1(f)(ii): assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(ii) Measurement of ECL

Note 28(a)(D): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection of models used to measure ECL.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These include the following which may be relevant to the Bank.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the conceptual framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts - cost of fulfilling a contract*	1 January 2022
Annual improvements to HKFRSs 2018-2020 cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021 (continued)

The Bank is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

32 Comparative figures

Certain comparative figures have been reclassified to conform the financial presentation adopted in the current year.

Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy

	2021	*2020*
Capital ratio:		
Common Equity Tier 1 ("CET1") Capital Ratio	26.13%	27.03%
Tier 1 Capital Ratio	26.13%	27.03%
Total Capital Ratio	27.51%	28.43%

The components of total capital before and after deductions are shown below:

	2021 ’000	*2020* ’000
CET1 Capital:		
CET1 Capital instruments	$ 300,000	$ 300,000
Retained earnings	245,541	224,080
Disclosed reserves	25,536	28,971
CET1 Capital before deductions	$ 571,077	$ 553,051
Regulatory deductions to CET1 capital:		
Reserves arising from revaluation of land and buildings	(11,244)	(11,244)
Reserve for general banking risk	(16,000)	(16,000)
Net deferred tax assets	(1,544)	(766)
Total CET1 Capital	$ 542,289	$ 525,041
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	$ 542,289	$ 525,041

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy (continued)

		2021 '000		*2020* '000
Tier 2 ("T2") Capital				
Reserves arising from revaluation of land and buildings	$	5,060	$	5,060
Reserve for general banking risk and collective impairment allowances		23,506		21,941
Regulatory deductions to T2 capital		-		-
Total T2 Capital	$	28,566	$	27,001
Total Capital	$	570,855	$	552,042

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"). In accordance with the Capital Rules, the Bank has adopted the "Basic Approach" for the calculation of the risk-weighted assets for credit risk, and the "Basic Indicator Approach" for the calculation of operational risk. The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

CET1 capital instruments represents HK$300,000,000 (2020: HK$300,000,000) of issued and fully paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings. The revaluation reserve is not available for distribution to shareholders.

A regulatory reserve of $16,000,000 (2020: $16,000,000) is maintained to satisfy the provisions of the Hong Kong Banking Ordinance. Movements in the reserve are made directly through retained earnings.

A collective impairment allowance is maintained to cover potential impairment losses for a group of financial assets with similar credit risk characteristics where the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(a) Capital and capital adequacy (continued)

No item benefits from the transitional arrangements set out in Section 4H to the Capital Rules.

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Bank's website at www.hbzhongkong.com and includes the following information:

- A detailed breakdown of the CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions applied to the capital base of the institution by using the standard capital disclosures template as specified by the HKMA.

- A full reconciliation of the CET1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions applied to the capital base of the institution and the balance sheet in the published financial statements of the institution.

- A description of the main features and the terms and conditions of capital instruments issued by the institution.

(b) Leverage Ratio

	2021	*2020*
Leverage Ratio	16.01%	18.00%

	2021 '000	*2020* '000
Tier 1 Capital	$ 542,289	$ 525,041
Exposure Measure	3,387,653	2,917,636

The leverage ratio as at 31 December 2021 and 31 December 2020 were compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

Leverage ratio disclosures as required by section 24A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(c) Countercyclical Capital Buffer Ratio

	2021	*2020*
Countercyclical Capital Buffer Ratio	0.824%	0.808%

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules for 2021 are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

(d) Capital Conservation Buffer Ratio

Under section 3M of the Capital Rules, the capital conservation buffer ratios for calculating the Bank's buffer level are 2.5% for 2021 and 2.5% for 2020.

(e) Liquidity information

	2021	*2020*
Average liquidity maintenance ratio for the year	75.59%	88.78%

The average liquidity maintenance ratio ("LMR") for the year is calculated as the simple average of each month's average LMR as reported in the Liquidity Position Return.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(f) Segmental information

The Bank's total operating income (net of interest expense) and operating assets directly attributable to the following classes of business are set out below:

	2021		
	Trade finance and deposits taking	*Treasury and others*	*Total*
Interest income calculated using the effective interest method	$ 62,532,780	$ 14,335,756	$ 76,868,536
Interest expense	(5,862,549)	(2,906,838)	(8,769,387)
Net interest income	$ 56,670,231	$ 11,428,918	$ 68,099,149
Fee and commission income	$ 29,134,442	$ -	$ 29,134,442
Fee and commission expense	(1,031,252)	-	(1,031,252)
Net fee and commission income	$ 28,103,190	$ -	$ 28,103,190
Other net income	$ 22,841,985	$ 1,547,444	$ 24,389,429
Operating income	$ 107,615,406	$ 12,976,362	$ 120,591,768
Operating expenses	(73,593,545)	(8,873,975)	(82,467,520)
Operating profit before provisions	$ 34,021,861	$ 4,102,387	$ 38,124,248
Net charge of impairment allowances	(166,637)	-	(166,637)
Operating profit after provisions	$ 33,855,224	$ 4,102,387	$ 37,957,611
Profit before taxation	$ 33,855,224	$ 4,102,387	$ 37,957,611

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(f) Segmental information (continued)

	2021		
	Trade finance and deposits taking	*Treasury and others*	*Total*
Capital expenditure	$ -	$ 1,710,937	$ 1,710,937
Depreciation	$ 3,875,969	$ 467,368	$ 4,343,337
Segment assets	$ 1,934,290,139	$ 1,040,595,557	$ 2,974,885,696
Total assets	$ 1,934,290,139	$ 1,040,595,557	$ 2,974,885,696
Segment liabilities	$ 1,954,387,436	$ 449,422,065	$ 2,403,809,501
Total liabilities	$ 1,954,387,436	$ 449,422,065	$ 2,403,809,501

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(f) Segmental information (continued)

	2020		
	Trade finance and deposits taking	*Treasury and others*	*Total*
Interest income calculated using the effective interest method	$ 60,728,548	$ 15,754,780	$ 76,483,328
Interest expense	(16,770,169)	(3,038,549)	(19,808,718)
Net interest income	$ 43,958,379	$ 12,716,231	$ 56,674,610
Fee and commission income	$ 25,226,031	$ -	$ 25,226,031
Fee and commission expense	(843,989)	-	(843,989)
Net fee and commission income	$ 24,382,042	$ -	$ 24,382,042
Other net income	$ 17,791,274	$ 1,605,383	$ 19,396,657
Operating income	$ 86,131,695	$ 14,321,614	$ 100,453,309
Operating expenses	(73,360,575)	(11,627,564)	(84,988,139)
Operating profit before provisions	$ 12,771,120	$ 2,694,050	$ 15,465,170
Net charge of impairment allowances	(2,400,822)	-	(2,400,822)
Operating profit after provisions	$ 10,370,298	$ 2,694,050	$ 13,064,348
Profit before taxation	$ 10,370,298	$ 2,694,050	$ 13,064,348

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(f) Segmental information (continued)

	2020		
	Trade finance and deposits taking	*Treasury and others*	*Total*
Capital expenditure	$ -	$ 696,395	$ 696,395
Depreciation	$ 3,853,488	$ 610,390	$ 4,463,878
Segment assets	$ 1,721,747,737	$ 981,428,565	$ 2,703,176,302
Total assets	$ 1,721,747,737	$ 981,428,565	$ 2,703,176,302
Segment liabilities	$ 1,785,134,172	$ 364,991,816	$ 2,150,125,988
Total liabilities	$ 1,785,134,172	$ 364,991,816	$ 2,150,125,988

The Bank's principal activities are the taking of deposits and financing of import/export and local trade.

Segment information has been presented in two reportable segments as follows:

The major component of business is trade finance extended to customers by way of opening letters of credit and financing import and export bills. Within the trade finance portfolio, the emphasis is on purchasing/discounting of export bills with a wide geographical spread. Such advances are of short term duration, normally not exceeding 120 days. The short term nature of the advances provides a cushion against the pronounced adverse changes in the business and economic cycles, deflation in assets prices and risk transfer. The financing of import/export and local trade is sourced through deposits.

Treasury and others includes interbank and capital market activities.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(g) Advances to customers

(i) By industry sector

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows:

			2021					
	Gross loans and advances '000	*% of gross loans and advances covered by collateral*	*Overdue loans and advances* '000	*Impaired loans and advances* '000	*Individually assessed impairment allowance* '000	*Collectively assessed impairment allowance* '000	*Impairment charged to statement of comprehensive income during the year* '000	*Impaired loans written off during the year* '000
Loans for use in Hong Kong individual - other loans	$ 2,684	100%	$ -	$ -	$ -	$ -	$ -	$ -
Trade finance	874,827	29.90%	28,689	-	-	8,651	(762)	3,589

			2020					
	Gross loans and advances '000	*% of gross loans and advances covered by collateral*	*Overdue loans and advances* '000	*Impaired loans and advances* '000	*Individually assessed impairment allowance* '000	*Collectively assessed impairment allowance* '000	*Impairment charged to statement of comprehensive income during the year* '000	*Impaired loans written off during the year* '000
Loans for use in Hong Kong individual - other loans	$ 2,290	100%	$ -	$ -	$ -	$ -	$ -	$ -
Trade finance	736,487	40.40%	22,670	11,043	3,218	9,785	2,941	10,844

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(g) Advances to customers (continued)

(ii) By geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area 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.

	2021	*2020*
Gross advances to customers		
Hong Kong	$ 845,877,039	$ 718,605,080
Asia Pacific excluding Hong Kong	27,967,908	-
Africa, Caribbean, Latin America and North America	3,665,616	20,173,044
Europe	-	-
	$ 877,510,563	$ 738,778,124

All impaired advances to customers at 31 December 2021 and 2020 are located in Hong Kong.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(h) Overdue and rescheduled assets

The gross amount of overdue assets are as follows:

	2021							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
- 6 months or less but over 3 months	$ -	$ -	-	$ -	$ -	$ -	$ -	$ -
- 1 year or less but over 6 months	-	-	-	-	-	-	-	-
- Over 1 year	-	-	-	-	-	-	-	-
	$ -	$ -	-	$ -	$ -	$ -	$ -	$ -

	2020							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
- 6 months or less but over 3 months	$1,797,794	$ 477,827	0.24%	$1,085,417	$ -	$ -	$ -	$ -
- 1 year or less but over 6 months	6,029,975	3,901,890	0.82%	2,128,085	-	-	-	-
- Over 1 year	-	-	-	-	-	-	-	-
	$7,827,769	$4,379,717	1.06%	$3,213,502	$ -	$ -	-	$ -

Collaterals held with respect to overdue advances to customers and trade bills are cash deposits and mortgage property with the Bank.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(i) Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority Return of Mainland Activities.

2021	*On-balance sheet exposure* '000	*Off-balance sheet exposure* '000	*Total* '000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	$ 64,433	$ -	$ 64,433
2. Local governments, local government-owned entities and their subsidiaries and JVs	77,007	-	77,007
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	182,525	54,336	236,861
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	99,987	-	99,987
	$ 423,952	$ 54,336	$ 478,288
Total assets after provision	$ 2,953,831		
On-balance sheet exposures as percentage of total assets	14.35%		

2020	*On-balance sheet exposure* '000	*Off-balance sheet exposure* '000	*Total* '000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	$ 67,898	$ -	$ 67,898
2. Local governments, local government-owned entities and their subsidiaries and JVs	103,666	-	103,666
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	201,640	86,413	288,053
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	61,354	702	62,056
	$ 434,558	$ 87,115	$ 521,673
Total assets after provision	$ 2,673,326		
On-balance sheet exposures as percentage of total assets	16.26%		

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(j) International claims

The country risk exposures are prepared according to the location and types of the counterparties as defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. International claims on individual areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as below.

			Non-bank private sector		
HK$ million equivalent	*Banks*	*Official sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
As at 31 December 2021					
Developed countries	$ 173	$ -	$ -	$ 59	$ 232
Offshore centres	128	-	-	768	896
of which Hong Kong	127	-	-	688	815
Developing Europe	13	-	-	22	35
Developing Latin America and Caribbean	22	-	-	47	69
Developing Africa and Middle East	100	-	-	121	221
Developing Asia and Pacific	750	-	-	268	1,018
of which Bangladesh	527	-	-	-	527
of which China	22	-	-	136	158
Total	$ 1,186	$ -	$ -	$ 1,285	$ 2,471

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(j) International claims (continued)

HK$ million equivalent	*Banks*	*Official sector*	*Non-bank private sector: Non-bank financial institutions*	*Non-bank private sector: Non-financial private sector*	*Total*
As at 31 December 2020					
Developed countries	$ 48	$ -	$ -	$ 86	$ 134
Offshore centres	205	-	-	578	783
of which Hong Kong	155	-	-	509	664
Developing Europe	4	-	-	34	38
Developing Latin America and Caribbean	19	-	-	19	38
Developing Africa and Middle East	79	-	-	61	140
Developing Asia and Pacific	713	-	-	373	1,086
of which Bangladesh	405	-	-	-	405
of which China	23	-	-	221	244
Total	$ 1,068	$ -	$ -	$ 1,151	$ 2,219

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(k) Remuneration system

The Bank has adopted and is committed to promoting a sound and prudent remuneration system in accordance with the guideline in Part 3 of the Supervisory Policy Manual Module CG-5 “Guideline on a Sound Remuneration System” issued by the HKMA.

The Bank recognises that achievement of its mission, vision and strategic objectives depends on the quality and commitment of its staff. The principles of the HBZ Remuneration Policy reflect its goal to attract, retain, motivate and reward quality staff. The guiding principles used to determine the institution-wide remuneration policy are based on sound governance, internal equality, competitiveness, sustainability and conservative approach to risk-taking. The remuneration policy is reviewed annually by the Board of Directors.

To establish the relative merit and worth of each position and to ensure equity in remuneration, a performance appraisal system is in place and is consistently applied across all areas of work and responsibilities. Performance of individual employees is based on a set of pre-defined criteria which are determined according to the individual’s designation as well as relevant qualitative and quantitative factors. Promotions and increments are linked to performance appraisals.

The parameters used for allocating cash versus other forms of remuneration depend on the organizational status of the employee. The remuneration package across the Bank is structured with a fixed compensation component only. The remuneration package comprises of basic salary, allowances, retirement scheme contributions, bonuses and benefits. A provident fund under the Occupational Retirement Scheme Ordinance and a Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance are also in place.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(k) Remuneration system (continued)

The senior management comprises of the Chief Executive and two Alternate Chief Executives while key personnel includes two senior executives (2020: one senior executive) of the Bank. The aggregate remuneration for senior management and key personnel are shown below in accordance with the disclosure requirement of the afore-mentioned guideline:

	2021		*2020*	
	Senior Management	*Key Personnel*	*Senior Management*	*Key Personnel*
Fixed Remuneration				
- Cash based	7,028,409	3,248,360	7,502,055	1,460,160
- Retirement scheme contributions	369,782	82,831	422,223	64,771
- Benefit in kind	816,000	-	840,000	-
- Deferred compensation	-	-	650,000	-

Benefit in kind represents provision of the Bank’s residential apartment. No sign-on award or severance payments were made to the senior management or key personnel during the year.

(l) Specific disclosures and additional quarterly disclosures

The specific disclosures and additional quarterly disclosures to be made by authorized institutions incorporated in Hong Kong respectively required by Part 2A and 2B of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.hbzhongkong.com.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

The capital requirements on each class of exposures calculated under the basic (credit risk) approach at the reporting date can be analysed as follows:

Classes of exposure

	2021 '000	*2020* '000
Sovereign	$ 2,752	$ -
Bank	23,245	22,553
Corporate	115,640	105,301
Other exposures which are not past due	8,799	8,404
Past due	-	939
Total capital requirements for on-balance sheet exposures	$ 150,436	$ 137,197
Trade-related contingencies	$ 4,954	$ 4,142
Exchange rate contracts	646	20
Total capital requirements for off-balance sheet exposures	$ 5,600	$ 4,162
	$ 156,036	$ 141,359

Capital charge

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of the reporting period is:

	2021 '000	*2020* '000
Capital charge for operational risk	$ 16,560	$ 15,989

Unaudited supplementary financial information (continued)

Detailed statement of comprehensive income for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

		2021		*2020*
Income				
Interest income calculated using the effective interest method	$	76,868,536	$	76,483,328
Interest expense		(8,769,387)		(19,808,718)
	$	68,099,149	$	56,674,610
Net fee and commission income		28,103,190		24,382,042
Gains less losses from dealing in foreign currencies		12,789,470		9,291,649
Other net income		11,599,959		10,105,008
	$	120,591,768	$	100,453,309
Expenses				
Advertising	$	469,300	$	340,959
Auditor's remuneration		1,984,110		1,646,200
Depreciation		4,343,337		4,463,878
Donations		161,000		175,055
Entertainment		434,259		181,028
Government fee		405,930		462,210
Head office expenses		9,326,163		10,060,006
Heating, light and cleaning		512,003		486,907
Insurance		280,252		270,710
Legal and professional fees		3,185,659		2,010,153
Miscellaneous expenses		368,738		370,495
Motor vehicle expenses		746,762		647,591
Office rent and rates		1,141,775		1,160,022
Office supplies		162,731		149,340
Postage and courier		2,263,116		1,861,167
Repairs and maintenance		788,121		493,551
Balance carried forward	$	26,573,256	$	24,779,272

Unaudited supplementary financial information (continued)

Detailed statement of comprehensive income for the year ended 31 December 2021 (continued)

(Expressed in Hong Kong dollars)

		2021		*2020*
Balance brought forward	$	26,573,256	$	24,779,272
Staff allowances		9,070,671		9,240,617
Staff bonuses		4,501,999		5,654,435
Staff insurance		1,108,263		1,349,695
Staff leave encashment		1,752,921		452,138
Staff education and training		226,748		111,511
Staff ex gratia payments		458,740		984,586
Staff medical expenses		0		15,845
Staff provident fund		2,591,379		2,559,505
Staff quarters expenses		125,691		116,080
Staff salaries		32,235,594		33,860,816
Subscriptions		1,061,981		1,013,172
SWIFT expenses		173,006		160,126
Telephone charges		1,706,252		1,594,094
Temporary staff costs		601,945		2,588,910
Travelling		278,599		491,496
	$	82,467,045	$	84,972,298
Profit before provisions	$	38,124,723	$	15,481,011
Net charge of impairment allowances		(166,637)		(2,400,822)
Loss on disposal of fixed assets		(475)		(15,841)
Profit before taxation	$	37,957,611	$	13,064,348