China CITIC Bank International Limited

中信銀行(國際)有限公司

Audited Financial Statements

For the year ended 31 December 2021

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2021.

Principal Place of Business

China CITIC Bank International Limited (the "Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 61-65 Des Voeux Road Central, Hong Kong. Outside of Hong Kong, the Bank has branches operating in Macau, Singapore, New York and Los Angeles.

Principal Activities

The principal activities of the Bank and its subsidiaries (the "Group") are the provision of general banking and related financial services, primarily in Hong Kong. Particulars of the Bank's principal subsidiaries as at 31 December 2021 are set out in note 22 to the financial statements.

Business Review

A fair review of the Group's business (including an analysis using financial key performance indicators), a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of 2021, an indication of likely future development in the Group's business, a discussion on the Group's environmental policies and performance as well as its compliance with the relevant laws and regulations that have a significant impact on it, and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on it can be found in "Financial Performance", "Report of the Chief Executive Officer", "2021 Review of Operations", "Notes to the Financial Statements" and "Corporate Governance and Other Information" sections. The above sections form part of this report.

Financial Statements

The consolidated profit of the Bank and its subsidiaries for the year ended 31 December 2021 is set out in the consolidated income statement on page 10.

Dividend

The Directors do not recommend the payment of any dividends for the year ended 31 December 2021 (2020: Nil).

Share Capital

The Bank did not issue any shares during the year ended 31 December 2021 (2020: Nil).

Debentures Issued

The Bank issued USD600,000,000 Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities in July 2021 for its funding and general corporate purposes (2020: Nil). Details of the debentures issued by the Bank are set out in notes 30 and 32 of the financial statements.

Equity-Linked Agreements

The Bank did not enter into any equity-linked agreement during the year ended 31 December 2021 (2020: Nil).

Directors

(a) Directors of the Bank

As at the date of this report, the Board of Directors of the Bank comprises:

Chairman

Mr. YANG Yu

Executive Directors

Mr. BI Mingqiang *(President & Chief Executive Officer)*
Mrs. KAN NG Chau Yuk Helen *(Deputy Chief Executive Officer)*
Mr. BAI Lijun *(Deputy Chief Executive Officer)*
Mr. TANG Nai Pan *(Deputy Chief Executive Officer)*

Non-executive Directors

Mr. FANG Heying
Mr. GUO Danghuai
Mr. HU Gang *(appointed on 4 March 2021)*

Independent Non-executive Directors

Ms. LI Shuk Yin Edwina
Mr. TANG Shisheng
Ms. TSANG King Suen Katherine
Mr. WANG Guoliang
Mr. WU Jiesi

In accordance with Article 105 of the Bank’s Articles of Association, all present Directors shall retire from office by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. Save for Mr. WU Jiesi, all Directors, being eligible, offer themselves for re-election.

(b) Directors of the Bank's subsidiaries

During the year ended 31 December 2021 and up to the date of this report, Mr. BI Mingqiang, Mrs. KAN NG Chau Yuk Helen, Mr. BAI Lijun and Mr. TANG Nai Pan, who are Directors of the Bank, are also directors of certain subsidiaries of the Bank.

Other directors of the Bank's subsidiaries during the year ended 31 December 2021 and up to the date of this report include Mr. CHOI Wing Tsan Varden, Mr. CUI Hai, Ms. GE Danping, Mr. KAN Ying Tim, Mr. KWONG Po Yin Patrick, Ms. LI Haixia, Mr. MAK Kit Leung Mathew, Ms. SUI Yang, Mr. SUO Xuquan, Mr. TAM Yat Kung, Mr. WANG Feige, Mr. WONG Man Kin Jack, Mr. WOO Kwan Pok Alvin, Ms. YAU Wai Man Christine, Mr. ZHONG Wenhui Edward and Mr. ZHU Ning. Ms. CHOI Yuk Ling, Ms. LING Taotao, Mr. LYU Xiangrong, Mr. PANG Jiaren and Mr. ZHANG Naxin had been directors of the Company's subsidiaries and have resigned during the year and up to the date of this report.

Directors' Interests

No transaction, arrangement and contract of significance in relation to the Bank's business to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Bank and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year or at the end of the year was the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries 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.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Permitted Indemnity Provision

During the year ended 31 December 2021 and up to the date of this report, a permitted indemnity provision for the benefit of the Directors of the Bank is in force.

Compliance with the Banking (Disclosure) Rules

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

Auditor

The financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment as auditor of the Bank upon expiration of its current term of office at the forthcoming annual general meeting.

On behalf of the Board

BI Mingqiang
Director

Hong Kong, 22 March 2022

Independent Auditor's Report

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

Opinion

What we have audited
The consolidated financial statements of China CITIC Bank International Limited (the "Bank") and its subsidiaries (the "Group") which are set out on pages 10 to 162, which comprise:

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

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report.

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

Independence
We are independent of the Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to expected credit losses on loans and advances to customers.

Key Audit Matters *(continued)*

Key Audit Matter

As at 31 December 2021, the Group recorded total gross loans and advances to customers of HK$242,667 million and expected credit losses ("ECL") on loans and advances to customers of HK$1,872 million, of which HK$1,142 million, HK$175 million and HK$555 million are stage 1, 2 and 3 ECL allowances, respectively. Refer to notes 19(a) and (c), and 37(a)(vi) to the consolidated financial statements for details.

For stage 1 and 2 loans and advances to customers, the Group assesses ECL by using risk parameter modelling methodology based on internal and external data that requires application of significant judgements and assumptions in deriving the risk parameters. These judgements and assumptions include determination of customer's creditworthiness, forecasts of different macroeconomic scenarios and weightings applied to such scenarios.

The COVID-19 pandemic situation and the uncertain impact of government policies affecting various industry sectors have posed challenges to and induced further estimation uncertainty in current year's ECL computation. Greater management judgement is required in various ECL model inputs such as the credit rating of customers and variables used in macroeconomic forecast scenarios, as well as post model overlay. For the current year, a management overlay which is inherently judgemental in nature has been applied to the modelled ECL outcome in respect of exposures to mainland commercial real estate sector.

In assessing the ECL for loans and advances in stage 3, which are regarded as credit-impaired, the significant judgements and assumptions applied relate to estimating the timing and amount of recoverable cash flows under a range of possible scenarios and their weightings determined based on available information.

We have identified the estimation of ECL on the Group's loans and advances to customers as a key audit matter as it is inherently complex because it involves the use of numerous parameters and data inputs, and is subject to a high degree of estimation uncertainty due to application of management judgements and assumptions.

How our audit addressed the Key Audit Matter

We obtained an understanding of management's processes and internal controls over determination of ECL on loans and advances to customers in order to assess the risk of estimation uncertainty and identify the likely sources of material misstatement for ECL. In assessing risk of estimation uncertainty, we have taken into account inherent risk factors such as complexity of ECL methodologies adopted and judgements and assumptions applied.

In response to risks assessed and likely sources of material misstatements identified, we have performed a combination of test of controls and substantive procedures as part of our audit. These include:

- Assessed management's controls over determination and approval of key judgements (e.g. macroeconomic forecasts and scenario weightings, management overlay, recoverable cash-flows and recovery scenarios on credit-impaired loans etc.) and the ECL outcome.

- Assessed the operating effectiveness of controls exercised by management in assigning and updating internal credit ratings, such as ad-hoc credit reviews, thematic portfolio reviews and early alert mechanism to identify deterioration in customer creditworthiness.

- Assessed whether and how management has taken into account the impact of latest COVID-19 pandemic situation, applicable government policies and other macroeconomic events in evaluating customer creditworthiness and ECL computation.

Key Audit Matters *(continued)*

How our audit addressed the Key Audit Matter *(continued)*

- Independently reviewed and challenged the internal credit ratings for a sample of loan exposures as at 31 December 2021.

- For macroeconomic forecasts adopted in ECL computation, we evaluated the reasonableness and supportability of macroeconomic forecast scenarios and their weightings by performing sensitivity analyses and comparing against publicly available information.

- Reviewed the results of management's ECL model validation and back-testing.

- Independently reviewed and challenged ECL provisions for significant stage 3 exposures, and assessing the reasonableness of management's estimates of the timing and amount of recoverable cash flows under a range of possible scenarios and their weightings based on financial information of borrowers, collateral valuations and information on other available sources of recovery.

- Tested management's controls over input of critical data elements of the ECL model, user access and interface of critical data from source systems to the ECL models, reconciliation between the ECL modelled outcome and financial reporting systems, and independently tracing data relating to key ECL model judgements and assumptions to relevant source systems and documentation.

- Checked and evaluated the financial statements disclosures in relation to ECL on loans and advances to customers against relevant accounting standard requirements.

Other Information

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee of the Group assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Ms. Lam Hung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2022

Consolidated Income Statement

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** **HK$'000**	2020 HK$'000
Interest income	4(a)	**7,945,179**	9,038,772
Interest expense	4(b)	**(2,139,909)**	(3,852,587)
Net interest income		**5,805,270**	5,186,185
Fee and commission income		**1,763,233**	1,401,025
Fee and commission expense		**(156,249)**	(139,207)
Net fee and commission income	5	**1,606,984**	1,261,818
Net trading income	6	**879,240**	905,560
Net hedging loss	7	**–**	(1,313)
Net loss on disposal of financial assets at fair value through other comprehensive income		**(118,884)**	(33,428)
Other operating income	8	**22,737**	36,805
Operating income		**8,195,347**	7,355,627
Operating expenses	9	**(3,929,622)**	(3,661,798)
Operating profit before impairment		**4,265,725**	3,693,829
Expected credit losses on financial assets	11	**(1,782,919)**	(2,356,656)
Impairment losses reversed on other assets		**13,731**	4,176
Impairment losses		**(1,769,188)**	(2,352,480)
Operating profit		**2,496,537**	1,341,349
Net loss on disposal of property and equipment and intangible assets		**(2,915)**	(961)
Revaluation gain/(loss) on investment properties	23	**6,777**	(34,300)
Profit before taxation		**2,500,399**	1,306,088
Income tax	12	**(371,961)**	(150,271)
Profit for the year		**2,128,438**	1,155,817
Profit attributable to shareholders		**2,128,438**	1,155,817

The notes on pages 15 to 162 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** HK$'000	2020 HK$'000
Profit for the year		**2,128,438**	1,155,817
Other comprehensive (loss)/income for the year	13		
Items that will be reclassified subsequently to consolidated income statement when specific conditions are met			
Exchange differences on translation of financial statements of foreign operations		**48,190**	98,906
Financial assets at fair value through other comprehensive income			
– change in the fair value of debt instruments		**(674,566)**	228,445
– transfer to income statement on disposal		**118,884**	33,428
– deferred tax related to the above		**90,709**	(42,036)
– transfer to income statement on impairment		**59,133**	22,853
		(405,840)	242,690
Items that will not be reclassified subsequently to consolidated income statement			
Property revaluation reserve			
– surplus on revaluation of other premises upon reclassification to investment properties		**159,602**	58,686
Financial assets at fair value through other comprehensive income			
– change in the fair value of equity instruments		**(31,836)**	1,686
– deferred tax related to the above		**5,253**	(278)
		(26,583)	1,408
Other comprehensive (loss)/income for the year		**(224,631)**	401,690
Total comprehensive income for the year		**1,903,807**	1,557,507
Total comprehensive income attributable to shareholders		**1,903,807**	1,557,507

The notes on pages 15 to 162 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** **HK$'000**	2020 HK$'000
ASSETS			
Cash and balances with banks and central banks	15	**28,828,450**	32,783,916
Placements with and advances to banks	16	**21,058,640**	28,969,830
Financial assets at fair value through profit or loss	17(a)	**3,106,275**	2,649,076
Derivative financial instruments	18(b)	**8,888,842**	14,378,601
Loans and advances to customers and other accounts	19	**249,416,421**	226,789,958
Financial assets at fair value through other comprehensive income	20	**103,926,448**	84,950,868
Amortised cost investments	21	**53,375**	48,493
Property and equipment	23		
– Investment properties		**446,607**	254,830
– Other premises and equipment		**479,209**	511,806
Right-of-use assets	24	**559,103**	696,653
Intangible assets	25	**539,779**	635,101
Tax recoverable	28(a)	**–**	55,449
Deferred tax assets	28(b)	**168,886**	174,107
Total Assets		**417,472,035**	392,898,688
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions		**13,584,427**	5,326,408
Deposits from customers	26	**327,768,033**	309,877,016
Financial liabilities at fair value through profit or loss	17(b)	**768,006**	290,185
Derivative financial instruments	18(b)	**8,766,335**	15,160,283
Certificates of deposit issued	27	**1,481,389**	–
Current tax liabilities	28(a)	**120,708**	19,656
Deferred tax liabilities	28(b)	**1,541**	904
Other liabilities	29	**10,718,536**	10,078,174
Lease liabilities		**592,621**	722,894
Loan capital	30	**3,883,863**	3,855,374
Total Liabilities		**367,685,459**	345,330,894
Equity			
Share capital	31(a)	**18,404,013**	18,404,013
Reserves		**22,827,746**	21,393,369
Total shareholders' equity		**41,231,759**	39,797,382
Other equity instruments	32	**8,554,817**	7,770,412
Total Equity		**49,786,576**	47,567,794
Total Equity and Liabilities		**417,472,035**	392,898,688

The notes on pages 15 to 162 form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 22 March 2022.

BI Mingqiang

Executive Director, President and Chief Executive Officer

TANG Nai Pan

Executive Director and Deputy Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Share capital	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves	Other equity instruments (note 32)	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2021	**18,404,013**	**6,589**	**100,000**	**3,348**	**134,931**	**593,020**	**60,108**	**149,500**	**20,345,873**	**21,393,369**	**7,770,412**	**47,567,794**
Changes in equity for 2021:												
Profit for the year	–	–	–	–	–	–	–	–	**2,128,438**	**2,128,438**	–	**2,128,438**
Other comprehensive income for the year	–	–	–	**48,190**	**159,602**	**(432,423)**	–	–	–	**(224,631)**	–	**(224,631)**
Total comprehensive income for the year	–	–	–	**48,190**	**159,602**	**(432,423)**	–	–	**2,128,438**	**1,903,807**	–	**1,903,807**
Transfer from retained profits	–	–	–	–	–	–	**2,727**	**30,767**	**(33,494)**	–	–	-
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	**(441,432)**	**(441,432)**	–	**(441,432)**
Issue of AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	**4,647,489**	**4,647,489**
Redemption of AT1 Capital Securities	–	–	–	–	–	–	–	–	**(27,998)**	**(27,998)**	**(3,863,084)**	**(3,891,082)**
At 31 December 2021	**18,404,013**	**6,589**	**100,000**	**51,538**	**294,533**	**160,597**	**62,835**	**180,267**	**21,971,387**	**22,827,746**	**8,554,817**	**49,786,576**
At 1 January 2020	18,404,013	6,589	100,000	(95,558)	76,245	348,922	59,162	149,500	19,630,889	20,275,749	7,770,412	46,450,174
Changes in equity for 2020:												
Profit for the year	–	–	–	–	–	–	–	–	1,155,817	1,155,817	–	1,155,817
Other comprehensive income for the year	–	–	–	98,906	58,686	244,098	–	–	–	401,690	–	401,690
Total comprehensive income for the year	–	–	–	98,906	58,686	244,098	–	–	1,155,817	1,557,507	–	1,557,507
Transfer from retained profits	–	–	–	–	–	–	946	–	(946)	–	–	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	(439,887)	(439,887)	–	(439,887)
At 31 December 2020	18,404,013	6,589	100,000	3,348	134,931	593,020	60,108	149,500	20,345,873	21,393,369	7,770,412	47,567,794

The notes on pages 15 to 162 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** **HK$'000**	2020 HK$'000
Net cash used in operating activities	33(a)	**(10,120,531)**	(6,127,485)
Cash flow generated from/(used in) investing activities			
Dividends received from equity securities		**3,810**	4,330
Purchase of property and equipment and intangible assets		**(263,038)**	(385,507)
Proceeds from disposal of property and equipment		**144**	26
Net cash used in investing activities		**(259,084)**	(381,151)
Cash flow generated from/(used in) financing activities			
Proceeds from AT1 Capital Securities issuance		**4,647,489**	–
Payment for redemption of debt securities issued		**–**	(3,252,833)
Payment for redemption of loan capital		**–**	(2,359,017)
Payment for redemption of AT1 Capital Securities		**(3,891,082)**	–
Distribution paid on AT1 Capital Securities		**(441,432)**	(439,887)
Payment of lease liabilities		**(310,351)**	(313,626)
Interest paid on debt securities issued		**–**	(59,195)
Interest paid on loan capital		**(179,742)**	(256,137)
Net cash used in financing activities		**(175,118)**	(6,680,695)
Net decrease in cash and cash equivalents		**(10,554,733)**	(13,189,331)
Cash and cash equivalents at 1 January		**78,305,049**	90,903,199
Exchange differences in respect of cash and cash equivalents		**103,775**	591,181
Cash and cash equivalents at 31 December	33(b)	**67,854,091**	78,305,049

The notes on pages 15 to 162 form part of these consolidated financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

The principal activities of China CITIC Bank International Limited ("the Bank") and its subsidiaries (together referred to as "the Group"), which materially affect the results or comprise the assets and liabilities of the Group, are the provision of banking and related financial services.

China CITIC Bank International Limited is a licensed bank incorporated and domiciled in Hong Kong, and has its registered office at 61-65 Des Voeux Road Central, Hong Kong.

(a) Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Group is set out in Note 2.

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 Group and the Bank. Note 2.1 provides information on any changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis, except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as at fair value through profit or loss, at fair value through other comprehensive income (see note 2.2(c)(iv), (v) and (vi)) or derivatives (see note 2.2(h))

– investment properties (see note 2.2(i)).

1 Basis of preparation *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of consolidated financial statements in conformity with HKFRSs requires that management to make judgements, estimates and assumptions that affect the application of policies and the 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 a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) New and amended standards adopted by the Group

The Group has adopted the requirements of ‘Interest Rate Benchmark Reform – Phase 2 Amendments to HKFRS 9, HKFRS 7 and HKFRS 16’ (IBOR reform Phase 2) which is effective for periods beginning on or after 1 January 2021. This has resulted in additional disclosures as described below (refer to Note 2.1).

(d) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Significant Accounting Policies

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

2.1 New adoption of the requirements of Interbank offer rate (IBOR) reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free rate (RFR) or alternative benchmark rate.

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

As indicated in the accounting policies, the Group elected, as a policy choice permitted under HKFRS 9, to continue to apply hedge accounting in accordance with HKAS 39.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. For the year ended 31 December 2021, the Group did not enter into any accounting hedge transaction.

2.2 Summary of significant accounting policies

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis. Effective interest method is used for recognising interest income on those financial instruments that are not classified as fair value through profit or loss.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(a) Revenue recognition *(continued)*

(i) Interest income (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

Interest on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the cost or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(a) Revenue recognition *(continued)*

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in the finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for the acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(b) Subsidiaries *(continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of the entity are allocated for as if the group had directly disposed of related assets or liabilities. This way means that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2.2(d)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2.2(t)).

(c) Financial instruments

(i) Classification

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

– Amortised cost

– Fair value through other comprehensive income ("FVOCI"); or

– Fair value through profit or loss ("FVPL")

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire, or when the financial asset together with substantially all the risks and rewards of ownership, have been transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(iii) Measurement

At initial recognition, the Group measures financial assets at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

(iv) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in the credit risk management section of this annual financial report. Interest income from these financial assets is included in 'interest income' using the effective interest rate method. Loan origination fees and costs are considered to be adjustments to the loan yield and are recognised in credit fees over the commitment period which it is unlikely that the commitment will be called upon, otherwise, they are recognised in interest income over the term of the resulting loan.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

(iv) Debt instruments (continued)

Fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment, interest revenue and foreign exchange gains and losses which are recognised in profit or loss in the same manner as financial assets measured at amortised cost. On derecognition, cumulative gains and losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss. Interest income from debt instruments at FVOCI is included in 'interest income' using the effective interest rate method.

Fair value through profit or loss ("FVPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and included in 'net trading income' in the period in which it arises.

(v) Financial liabilities

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, certificates of deposit in issue, loan capital and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value, and in the case of financial liability not at fair value through profit or loss, plus or minus transaction costs.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

(v) Financial liabilities (continued)

Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statement, with interest component being reported as part of the interest expenses.

Financial liabilities designated at fair value through profit or loss

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain certificates of deposit in issue and certain deposits received from customers that are embedded with derivatives. A financial liability is so designated if it meets one of the following criteria:

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

– applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the key management; or

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

(v) Financial liabilities (continued)

Financial liabilities designated at fair value through profit or loss (continued)

- relates to financial liabilities containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial liabilities. Financial liabilities designated at fair value through profit or loss are measured at fair value and any gains and losses from changes in fair value are recognised in the income statement, except for fair value changes arising from own credit risks are recognised as other comprehensive income and subsequently reclassified to the retained earnings upon derecognition, unless such would create or enlarge an accounting mismatch in profit or loss, then all gains and losses from changes in fair value are recognised in the income statement.

Deposits, certificates of deposit in issue, loan capital and other liabilities

Deposits, certificates of deposit in issue, together with loan capital and other liabilities, other than those classified as trading liabilities or designated at fair value through profit or loss are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period using the effective interest method.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

(vi) Equity instruments

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

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal.

(d) Impairment of assets

(i) Impairment of amortised cost and financial assets through other comprehensive income

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposures arising from loan commitment and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(d) Impairment of assets *(continued)*

(i) Impairment of amortised cost and financial assets through other comprehensive income (continued)

The exposure of default ("EAD") represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The loss given default ("LGD") represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

A 3-Stages approach to impairment for financial assets that are performing at the date of origination or purchase. This approach is summarised as follows:

– Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

– Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. Allowances for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

– Stage 3: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses, reflecting that financial assets are credit impaired with 100% probability of default. The Group's definition of default is aligned with the regulatory definition.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(d) Impairment of assets *(continued)*

(ii) Impairment of non-financial assets

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 or, an impairment loss previously recognised no longer exists or may have decreased:

– property and equipment (other than properties carried at revalued amounts)

– intangible assets

– investments in subsidiaries and associates.

– right-of-use assets

If any such indication exists, the asset's recoverable amount is estimated.

– 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 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).

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(d) Impairment of assets *(continued)*

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

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever 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 is not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversal of impairment losses

In respect of assets, an impairment loss (except for impairment on goodwill) 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 the income statement in the year in which the reversals are recognised.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(e) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterpart.

(f) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for them is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, input is based on market data at the end of the reporting period.

(g) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale received are reported as liabilities and are carried at amortised cost.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(g) Repurchase and reverse repurchase transactions *(continued)*

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities and not recognised on the statement of financial position, but the consideration paid is recorded as receivables, and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense, respectively, over the life of each agreement, using the effective interest rate method.

(h) Derivatives and hedging activities

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If a hybrid contract contains a host that is not an asset within the scope of HKFRS 9, the embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with the accounting policies of financial instruments (see note 2.2(c)(ii)).

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9. Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues hedge accounting prospectively when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(h) Derivatives and hedging activities *(continued)*

(i) Fair value hedge

A fair value hedge seeks to offset the risks of changes in the fair value of a recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest rate method is used is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) also needs to be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regressive analysis as effectiveness testing methodologies.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(h) Derivatives and hedging activities *(continued)*

(ii) Hedge effectiveness testing (continued)

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2.2(l)) to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use.

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 2.2(a)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2.2(l)(ii)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2.2(a)(iii).

If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 “Property, Plant and Equipment”. However, if a fair value gain reverses a previous revaluation loss or impairment loss classified under premises, the gain is recognised in the income statement up to the amount previously debited.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(j) Other premises and equipment and right-of-use assets

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that other premises which are carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 have not been revalued to fair value at the end of the reporting period.

The following items of property and equipment (including right-of-use assets) are stated at cost less accumulated depreciation and impairment losses, if any (see note 2.2(d)(ii)):

– buildings held for own use;

– other items of equipment.

Changes arising in the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the income statement.

Depreciation is calculated to write off the cost or valuation of items of property and equipment (including right-of-use assets), less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

– Freehold land is not depreciated.

– Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.

– Buildings are depreciated over 30 years or the unexpired terms of the land leases, whichever is shorter.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(j) Other premises and equipment and right-of-use assets *(continued)*

– Furniture, fixtures and equipment are depreciated over a term of 3 to 10 years.

– Right-of-use assets over the shorter of useful lives and lease terms.

Where parts of an item of property and equipment (including right-of-use assets) have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts, and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Intangible assets

Intangible assets include the acquired software licenses and capitalised development costs of computer software programmes. Cost associated with maintaining software programme are recognised as an expense as incurred. Development costs, which directly attributable to the design and testing of identifiable and software products for internal use, are capitalised as part of the software and included employee costs and an appropriate portion of relevant overheads.

Intangible assets for software that have a finite estimated useful life are stated at cost less amortisation and accumulated impairment losses, and are amortised over their estimated useful lives (5 years) on a straight-line basis. Intangible assets are subject to impairment review on an annual basis if there are any impairment indicators present that the carrying amount may not be recoverable.

(l) Leases

At inception of a contract, the Group 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 over the contract period.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(l) Leases *(continued)*

(i) As a lessee

On the lease commencement date, the Group 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 Group enters into a lease in respect of a low-value asset, the Group 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, after taking into account payments to be made in the optional period if the extension option is reasonably certain to be exercised, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using a constant periodic rate of interest. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to income statement in the accounting period in which they are incurred.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(l) Leases *(continued)*

(i) As a lessee (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. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, and adjusted when the lease liabilities are remeasured.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change of lease terms, or there is a change arising from the reassessment of whether the Group 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 income statement if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the lease term.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group 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 Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Loans and advances to customers and other accounts". The Group does not hold the repossessed assets for its own use.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and 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 the income statement.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Employee benefits and contributions to defined contribution retirement plans

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

(ii) Staff retirement scheme

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. Contributions are charged to the income statement as and when the contributions fall due.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(p) 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 the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

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 the 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.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(p) Income tax *(continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2.2(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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 profit will be available.

Deferred income tax liabilities are provided on taxable temporary differences arising from investment in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on the deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Additional income tax that arises from the distribution of dividends is recognised when the liability to pay the related dividends is recognised.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(p) Income tax *(continued)*

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, and only if, the Group 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 Group 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 either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional currency and the Group's presentation currency.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(q) Translation of foreign currencies *(continued)*

(ii) Transactions and balances

Foreign currency transactions during the year are translated into functional currency at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of 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.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on the translation of fair value through other comprehensive income are recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services when such information is obtainable, or is otherwise estimated by reference to interest rate differentials by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged had the guarantees not been available, where reliable estimates of such information can be made. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. Financial guarantee liabilities are subsequently carried at the higher of: (i) the amount determined in accordance with the expected credit loss model under HKFRS 9 'Financial Instruments' and (ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 'Revenue from Contracts with Customers'.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(r) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or 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 expenditure 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.

(s) Related parties

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

(i) has control or joint control over the Group

(ii) has significant influence over the Group; or

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

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(s) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group 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 a group 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 Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

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

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(t) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use, and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sales plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up to date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale, and until disposal, the non-current assets (except for certain assets as explained below) or disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.2.

Impairment losses on initial classification as held for sale and on subsequent remeasurement while held for sale, are recognised in the income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

2 Significant Accounting Policies *(continued)*

2.2 Summary of significant accounting policies *(continued)*

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's management committee members for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(v) Government Grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the Group. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal business activities of the Group.

Government grants related to assets shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Grants related to income statement are presented as part of profit or loss and they are deducted in reporting the related expense.

3 Critical estimates, judgements and errors

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosures of contingent assets and liabilities at the date of these financial statements; and the reported amounts of revenues and expenses for the years presented. Management also needs to exercise judgement in applying the Group's accounting policies. The Group has established procedures to ensure that accounting policies are applied consistently and that the processes for changing methodologies, determining estimates, and adopting new accounting standards are continually evaluated and in proper and reasonable manner.

3 Critical estimates, judgements and errors *(continued)*

Critical estimates, judgements and errors for financial assets

(i) Classification and measurement of financial assets

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows; that is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable and they are held for trading purposes, the financial assets are classified and measured at FVPL.

Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely payments of principal and interest test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

(ii) Expected credit losses on financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of key assumptions and inputs such as significant increase in credit risk, measurement of expected credit loss, forward-looking information and management overlay are disclosed in the credit risk management section of note 37.

3 Critical estimates, judgements and errors *(continued)*

Critical estimates, judgements and errors for financial assets *(continued)*

(iii) Fair value of financial instruments

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. The majority of the Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced or verified market parameters. The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models.

These techniques involve uncertainties and are materially affected by the assumptions used and judgements made regarding the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could materially affect these estimates and the resulting fair values.

(iv) Judgement in determining the lease term of contracts with renewal options

The Group determines the lease terms as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is necessary certain not to be exercised.

Subsequent to the commencement date, the Group will need to apply judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. Moreover, the Group will reassess the lease term if there is any significant event or changes that affects its ability to exercise the option to renew.

4 Interest income and interest expense

(a) Interest income

	2021	2020
	HK$'000	HK$'000
Listed securities	**1,090,551**	1,334,070
Unlisted securities	**276,094**	402,904
Balances, placements with and advances to banks	**128,760**	501,356
Advances and other accounts	**6,449,774**	6,800,442
Interest income on financial assets that are not at fair value through profit or loss	**7,945,179**	9,038,772

Included within interest income are HK$6,627,788,000 (2020: HK$7,341,962,000) and HK$1,317,391,000 (2020: HK$1,696,810,000) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

(b) Interest expense

	2021	2020
	HK$'000	HK$'000
Deposits from customers, banks and other financial institutions and others	**1,926,368**	3,495,667
Certificates of deposit issued	**3,984**	13,323
Debt securities issued	**–**	59,195
Loan capital issued	**186,106**	256,137
Lease liabilities	**23,451**	28,265
Interest expense on financial liabilities that are measured at amortised cost	**2,139,909**	3,852,587

5 Net fee and commission income

	2021	2020
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**77,023**	69,097
Card-related income	**32,368**	28,872
Debt capital markets	**215,572**	265,267
Insurance	**589,093**	409,820
Investment and structured investment products	**312,638**	256,746
Loans, overdrafts and facilities fees	**401,551**	228,523
Banking services	**131,977**	135,425
Others	**3,011**	7,275
	1,763,233	1,401,025
Fee and commission expense	**(156,249)**	(139,207)
	1,606,984	1,261,818
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	**510,942**	326,492
– Fee and commission expense	**(42,837)**	(22,122)
	468,105	304,370

6 Net trading income

	2021	2020
	HK$'000	HK$'000
Net gains from dealing in foreign currencies	**632,949**	118,078
Net losses from financial assets at fair value through profit or loss	**(53,785)**	(80,722)
Net (losses)/gains from other dealing activities	**(108,777)**	247,113
Net interest income on trading activities		
– Listed	**82,096**	122,842
– Unlisted	**326,757**	498,249
	879,240	905,560

7 Net hedging loss

	2021	2020
	HK$'000	HK$'000
Net hedging (loss)/gain on fair value hedges		
– Net loss on hedging instruments	**–**	(57,210)
– Net gain on hedged items attributable to the hedged risk	**–**	55,897
	–	(1,313)

8 Other operating income

	2021	2020
	HK$'000	HK$'000
Dividend income		
– Unlisted investments	**3,810**	4,330
Rental income from investment properties less direct outgoings of HK$244,000 (2020: HK$227,000)	**3,907**	3,069
Others	**15,020**	29,406
	22,737	36,805

9 Operating expenses

	2021	2020
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs (Note)	**2,200,315**	1,948,422
Retirement costs (note 34)	**137,883**	124,372
	2,338,198	2,072,794
(b) Depreciation and amortisation		
Depreciation – property and equipment (note 23)	**118,408**	113,458
Depreciation – right-of-use assets (note 24)	**297,759**	291,776
Amortisation – intangible assets (note 25)	**244,816**	207,597
	660,983	612,831
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**387,058**	415,801
Auditor's remuneration		
– Audit fee	**7,219**	7,200
– Non-audit fee	**754**	1,604
Advertising	**99,490**	82,727
Communication, printing and stationery	**166,897**	146,809
Electronic data processing	**108,696**	154,235
Legal and professional fees	**65,445**	65,822
Others	**94,882**	101,975
	930,441	976,173
Total operating expenses	**3,929,622**	3,661,798

Note:

During the year ended 31 December 2020, the Group received HK$58,137,000 from the Government of the Hong Kong Special Administrative Region under the Employment Support Scheme and such government subsidy was deducted from the staff cost.

10 Directors' remuneration

The Directors' remuneration disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation is set out as below:

Note:

Benefits in kind mainly include housing allowance and insurance premium.

	2021	2020
	HK\$'000	HK\$'000
Directors' fees	**5,630**	4,813
Salaries, allowances and benefits in kind (Note)	**29,175**	20,936
Discretionary bonuses	**20,120**	14,688
Retirement scheme contributions	**1,899**	1,861
	56,824	42,298

11 Expected credit losses on financial assets

Expected credit losses ("ECL") charged/(reversed) on financial assets

	2021			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Balances with banks and central banks	**2,016**	**–**	**–**	**2,016**
Placements with and advances to banks	**(5,083)**	**–**	**–**	**(5,083)**
Loans and advances to customers and other accounts	**554,064**	**(402,773)**	**1,652,241**	**1,803,532**
Financial assets at fair value through other comprehensive income	**(16,559)**	**–**	**75,692**	**59,133**
Amortised cost investments	**2**	**–**	**–**	**2**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**15,265**	**542**	**–**	**15,807**
	549,705	**(402,231)**	**1,727,933**	**1,875,407**
Recoveries				**(92,488)**
				1,782,919

	2020			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Balances with banks and central banks	(925)	–	–	(925)
Placements with and advances to banks	(303)	–	–	(303)
Loans and advances to customers and other accounts	(173,417)	(1,172,053)	3,789,670	2,444,200
Financial assets at fair value through other comprehensive income	(19,249)	–	42,102	22,853
Loan commitments and guarantees (included in contingent liabilities and commitments)	55,098	892	–	55,990
	(138,796)	(1,171,161)	3,831,772	2,521,815
Recoveries				(165,159)
				2,356,656

12 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement

	2021 HK$'000	2020 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**230,251**	30,129
Over-provision in respect of prior years	**(22,850)**	(23,644)
	207,401	6,485
Current tax – Taxation outside Hong Kong		
Provision for the year	**63,426**	67,921
Over-provision in respect of prior years	**(21)**	(23,877)
	63,405	44,044
Deferred tax		
Origination of temporary differences (note 28)	**101,155**	99,742
	371,961	150,271

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. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2021 HK$'000	2020 HK$'000
Profit before tax	**2,500,399**	1,306,088
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**438,882**	270,026
Tax effect of non-deductible expenses	**52,018**	51,355
Tax effect of non-taxable revenue	**(59,705)**	(51,000)
Tax effect of distribution payment of AT1 Capital Securities	**(72,836)**	(72,581)
Over-provision in prior years	**(22,871)**	(47,521)
Others	**36,473**	(8)
Actual tax expense	**371,961**	150,271

13 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2021			2020		
	Before tax amount HK$'000	**Tax expense HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of foreign operations	**48,190**	**–**	**48,190**	98,906	–	98,906
Financial assets at fair value through other comprehensive income – debt securities						
– net movements in fair value reserve of financial assets at fair value through other comprehensive income	**(555,682)**	**90,709**	**(464,973)**	261,873	(42,036)	219,837
– impairment loss	**59,133**	**–**	**59,133**	22,853	–	22,853
Property revaluation reserve						
– net movement in property revaluation reserve	**159,602**	**–**	**159,602**	58,686	–	58,686
Financial assets at fair value through other comprehensive income – equity instruments						
– net movements in fair value reserve of financial assets at fair value through other comprehensive income	**(31,836)**	**5,253**	**(26,583)**	1,686	(278)	1,408
Other comprehensive income	**(320,593)**	**95,962**	**(224,631)**	444,004	(42,314)	401,690

14 Segment reporting

Segment information is prepared consistently with reportable segments. Information is regularly reported to the chief operating decision-maker, including management committee members, to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

The Group operates a wholesale banking business in Hong Kong and at overseas branches. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing deposit account services and cash management. Overseas branches include the branches operated overseas and their management office unit in Hong Kong.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, corporate expenses and China banking which mainly includes a subsidiary bank in China.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use of bank premises are reflected as inter-segment income for the 'Others' segment and inter-segment expenses for the respective business segments.

Segment allocation and cost allocation amongst reportable segments are reviewed from time to time as management deems fit and in the event of change, corresponding segment reporting information will be updated to conform with latest allocation basis.

14 Segment reporting *(continued)*

(a) Reportable segments

	2021				
	Wholesale banking HK$'000	Personal and business banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income	3,199,972	1,699,642	666,766	238,890	5,805,270
Other operating income	753,467	1,098,263	574,826	82,405	2,508,961
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	3,233	–	(132,919)	10,802	(118,884)
Operating income	3,956,672	2,797,905	1,108,673	332,097	8,195,347
Operating expenses	(425,096)	(994,064)	(186,636)	(2,323,826)	(3,929,622)
Inter-segment (expenses)/income	(199,520)	(617,577)	(154,485)	971,582	–
Operating profit/(loss) before impairment	3,332,056	1,186,264	767,552	(1,020,147)	4,265,725
Expected credit losses on financial assets	(1,676,386)	(44,157)	(56,541)	(5,835)	(1,782,919)
Impairment losses reversed on other assets	–	–	–	13,731	13,731
Operating profit/(loss)	1,655,670	1,142,107	711,011	(1,012,251)	2,496,537
Net gain/(loss) on disposal of property and equipment and intangible assets	64	(2,869)	(2)	(108)	(2,915)
Revaluation gain on investment properties	–	–	–	6,777	6,777
Profit/(loss) before taxation	1,655,734	1,139,238	711,009	(1,005,582)	2,500,399
Income tax					(371,961)
Profit for the year					2,128,438
Other segment items:					
Depreciation and amortisation	33,360	26,283	198	601,142	660,983
Segment assets (note)	172,279,814	77,295,134	172,720,857	(4,823,770)	417,472,035
Segment liabilities (note)	196,146,760	158,022,633	18,767,503	(5,251,437)	367,685,459
Capital expenditure incurred during the year	3,921	48,557	134	210,426	263,038

Note: Segment assets and segment liabilities included inter-segment elimination of HK$26,071,484,000 and HK$26,686,373,000 respectively under the 'Others' segment.

14 Segment reporting *(continued)*

(a) Reportable segments *(continued)*

	2020				
	Wholesale banking HK$'000	Personal and business banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income	2,963,302	1,548,415	348,445	326,023	5,186,185
Other operating income	640,137	873,825	661,005	27,903	2,202,870
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	21,569	–	(66,103)	11,106	(33,428)
Operating income	3,625,008	2,422,240	943,347	365,032	7,355,627
Operating expenses	(421,435)	(961,403)	(197,126)	(2,081,834)	(3,661,798)
Inter-segment (expenses)/income	(162,516)	(523,751)	(135,735)	822,002	–
Operating profit/(loss) before impairment	3,041,057	937,086	610,486	(894,800)	3,693,829
Expected credit losses on financial assets	(2,248,838)	(73,874)	(26,962)	(6,982)	(2,356,656)
Impairment losses reversed on other assets	–	–	–	4,176	4,176
Operating profit/(loss)	792,219	863,212	583,524	(897,606)	1,341,349
Net loss on disposal of property and equipment and intangible assets	–	(711)	(16)	(234)	(961)
Revaluation loss on investment properties	–	–	–	(34,300)	(34,300)
Profit/(loss) before taxation	792,219	862,501	583,508	(932,140)	1,306,088
Income tax					(150,271)
Profit for the year					1,155,817
Other segment items:					
Depreciation and amortisation	31,220	19,457	1,385	560,769	612,831
Segment assets	149,287,611	70,215,429	188,380,101	(14,984,453)	392,898,688
Segment liabilities	174,208,724	163,365,046	24,777,321	(17,020,197)	345,330,894
Capital expenditure incurred during the year	12,603	150,067	15,855	206,982	385,507

14 Segment reporting *(continued)*

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets and liabilities.

	2021				
	Profit before taxation HK$'000	**Total assets HK$'000**	**Total liabilities HK$'000**	**Operating income/ (expenses) HK$'000**	**Contingent liabilities and commitments HK$'000**
Hong Kong	**2,030,990**	**384,219,693**	**334,994,296**	**7,361,663**	**90,213,422**
Mainland China	**103,816**	**13,956,128**	**12,343,871**	**312,611**	**599,298**
United States	**190,504**	**14,123,627**	**13,994,907**	**293,957**	**7,313,313**
Singapore	**127,223**	**22,341,162**	**22,220,452**	**181,339**	**23,506,782**
Others	**47,836**	**2,389,053**	**2,314,730**	**82,883**	**492,318**
Inter-segment items	**30**	**(19,557,628)**	**(18,182,797)**	**(37,106)**	**–**
	2,500,399	**417,472,035**	**367,685,459**	**8,195,347**	**122,125,133**

	2020				
	Profit/(Loss) before taxation HK$'000	Total assets HK$'000	Total liabilities HK$'000	Operating income/ (expenses) HK$'000	Contingent liabilities and commitments HK$'000
Hong Kong	1,746,615	378,296,661	331,157,516	6,755,712	92,198,530
Mainland China	(3,513)	11,342,549	9,860,818	167,346	1,264,343
United States	102,053	13,972,966	13,874,622	236,321	2,022,635
Singapore	(595,312)	14,155,015	14,697,014	132,492	22,341,620
Others	56,244	4,755,024	4,701,906	74,446	317,071
Inter-segment items	1	(29,623,527)	(28,960,982)	(10,690)	–
	1,306,088	392,898,688	345,330,894	7,355,627	118,144,199

15 Cash and balances with banks and central banks

	2021 HK$'000	2020 HK$'000
Cash in hand	**236,236**	212,198
Balances with central banks	**14,671,889**	2,203,982
Balances with banks	**13,924,992**	30,370,387
	28,833,117	32,786,567
Expected credit losses allowances – Stage 1	**(4,667)**	(2,651)
	28,828,450	32,783,916

Included in the balances with central banks are balances subject to regulatory restrictions, amounting to HK$597,533,000 at 31 December 2021 (2020: HK$604,998,000).

16 Placements with and advances to banks

	2021 HK$'000	2020 HK$'000
Placements with banks	**20,647,800**	28,434,834
Advances to banks	**416,726**	545,965
	21,064,526	28,980,799
Expected credit losses allowances – Stage 1	**(5,886)**	(10,969)
	21,058,640	28,969,830
Maturing:		
– within 1 month	**19,846,311**	28,466,136
– between 1 month and 1 year	**1,212,329**	503,694
	21,058,640	28,969,830

17 Financial assets/(liabilities) at fair value through profit or loss

(a) Financial assets at fair value through profit or loss

	2021	2020
	HK$'000	HK$'000
Debt securities	**2,006,507**	2,351,288
Treasury bills	**1,099,768**	297,788
	3,106,275	2,649,076
Issued by:		
Sovereigns	**2,104,669**	1,314,180
Banks and other financial institutions	**681,738**	754,442
Corporate entities	**319,071**	538,656
Public entities	**797**	41,798
	3,106,275	2,649,076
Listed	**1,633,424**	2,341,585
Unlisted	**1,472,851**	307,491
	3,106,275	2,649,076

(b) Financial liabilities at fair value through profit or loss

	2021	2020
	HK$'000	HK$'000
Short sales of debt securities	**768,006**	290,185

18 Derivative financial instruments

The use of derivatives for proprietary trading and sales to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposure to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate-related contracts, which are primarily OTC derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

18 Derivative financial instruments *(continued)*

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these investments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	2021	2020
	HK$'000	HK$'000
Currency derivatives		
Forwards	**56,738,442**	60,610,924
Swaps	**964,903,705**	728,792,077
Options purchased	**24,249,234**	26,329,946
Options written	**22,123,956**	29,158,079
Interest rate derivatives		
Forwards/Futures	**27,289**	5,488,630
Swaps	**606,576,660**	819,149,400
Options purchased	**3,036,325**	3,019,001
Options written	**3,036,325**	3,019,001
	1,680,691,936	1,675,567,058

Trading includes the Group's principal risk taking positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book. For the year ended 31 December 2021 and 2020, there were no derivatives held for hedging.

(b) Fair value of derivatives

	2021		2020	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Currency derivatives	**5,755,146**	**5,751,550**	10,520,010	11,463,378
Interest rate derivatives	**3,133,696**	**3,014,785**	3,858,591	3,696,905
	8,888,842	**8,766,335**	14,378,601	15,160,283

18 Derivative financial instruments *(continued)*

(c) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

	2021			
	Notional amounts with remaining life of			
	Total	**1 year or less**	**Over 1 year to 5 years**	**Over 5 years**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Currency derivatives	**1,068,015,337**	**1,010,810,515**	**55,704,806**	**1,500,016**
Interest rate derivatives	**612,676,599**	**207,802,894**	**369,021,467**	**35,852,238**
	1,680,691,936	**1,218,613,409**	**424,726,273**	**37,352,254**

	2020			
	Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000
Currency derivatives	844,891,026	793,757,737	49,789,135	1,344,154
Interest rate derivatives	830,676,032	493,134,131	308,706,986	28,834,915
	1,675,567,058	1,286,891,868	358,496,121	30,179,069

19 Loans and advances to customers and other accounts

(a) Loans and advances to customers and other accounts less expected credit losses

	2021	2020
	HK$'000	HK$'000
Gross loans and advances to customers	**242,667,031**	220,096,434
– Expected credit losses allowances	**(1,871,846)**	(2,440,456)
	240,795,185	217,655,978
Other accounts	**8,967,557**	9,385,838
– Expected credit losses allowances		
– Stage 1	**(1,471)**	(783)
– Stage 3	**(344,850)**	(251,075)
	(346,321)	(251,858)
	8,621,236	9,133,980
	249,416,421	226,789,958

19 Loans and advances to customers and other accounts *(continued)*

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

	2021		2020	
	Gross loans and advances to customers HK$'000	**Impaired loans and advances to customers HK$'000**	Gross loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000
Industrial, commercial and financial				
– Property development	**8,951,242**	**4,574**	11,268,407	–
– Property investment	**15,064,324**	**153,563**	13,460,635	272,556
– Financial concerns	**14,866,601**	**–**	12,698,994	–
– Stockbrokers	**4,616,449**	**–**	4,044,282	–
– Wholesale and retail trade	**8,813,954**	**225,579**	9,618,761	197,481
– Manufacturing	**6,149,656**	**121,941**	9,762,067	35,794
– Transport and transport equipment	**2,207,235**	**–**	3,326,439	–
– Recreational activities	**1,396,460**	**–**	1,891,488	–
– Information technology	**4,140,974**	**7,209**	6,759,381	–
– Others	**12,106,121**	**587,344**	12,454,426	373,936
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,734**	**–**	25,360	175
– Loans for the purchase of other residential properties	**22,708,364**	**25,726**	21,168,747	24,858
– Credit card advances	**634,385**	**3,160**	434,591	3,207
– Others	**19,463,914**	**32,543**	16,152,868	10,903
Gross loans and advances for use in Hong Kong	**121,138,413**	**1,161,639**	123,066,446	918,910
Trade finance	**6,628,733**	**6,567**	5,441,544	32,771
Gross loans and advances for use outside Hong Kong	**114,899,885**	**1,086,034**	91,588,444	2,679,495
Gross loans and advances to customers	**242,667,031**	**2,254,240**	220,096,434	3,631,176

19 Loans and advances to customers and other accounts *(continued)*

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2021	**214,767,888**	**589,755**	**10,495,624**	**577,740**	**3,882,251**	**1,524,819**	**229,145,763**	**2,692,314**
Transfer:								
– Transfer to Stage 1	6,880,189	258,654	(6,830,158)	(258,650)	(50,031)	(4)	–	–
– Transfer to Stage 2	(11,024,368)	(19,606)	11,058,812	23,617	(34,444)	(4,011)	–	–
– Transfer to Stage 3	(139,020)	(83)	(1,662,740)	(49,773)	1,801,760	49,856	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(106,253)	–	81,919	–	250,161	–	225,827
Net financial assets originated/(derecognised or repaid)	28,306,899	353,438	(3,184,178)	(149,094)	(854,373)	(95,467)	24,268,348	108,877
Changes in risk parameters, model inputs and management overlay	–	67,914	–	(50,792)		1,451,706	–	1,468,828
Amounts written-off (note)	–	–	–	–	(2,326,537)	(2,326,537)	(2,326,537)	(2,326,537)
Other movements	–	–	–	–	180,464	48,858	180,464	48,858
At 31 December 2021	**238,791,588**	**1,143,819**	**9,877,360**	**174,967**	**2,599,090**	**899,381**	**251,268,038**	**2,218,167**

Summary of financial assets to which subject to the impairment requirements in HKFRS 9 are applied:

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
Loans and advances to customers	230,535,431	1,142,348	9,877,360	174,967	2,254,240	554,531	242,667,031	1,871,846
Other accounts (Note)	8,256,157	1,471	–	–	344,850	344,850	8,601,007	346,321
	238,791,588	1,143,819	9,877,360	174,967	2,599,090	899,381	251,268,038	2,218,167

19 Loans and advances to customers and other accounts *(continued)*

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts *(continued)*

2020

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2020	182,503,311	763,172	12,025,091	1,749,793	2,312,484	1,123,382	196,840,886	3,636,347
Transfer:								
– Transfer to Stage 1	7,861,124	32,347	(7,859,868)	(31,091)	(1,256)	(1,256)	–	–
– Transfer to Stage 2	(13,556,823)	(155,896)	14,129,235	237,231	(572,412)	(81,335)	–	–
– Transfer to Stage 3	(130,433)	(269)	(5,888,687)	(1,528,712)	6,019,120	1,528,981	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(21,871)	–	371,116	–	448,163	–	797,408
Net financial assets originated/(derecognised or repaid)	38,090,709	391,564	(1,910,147)	(196,633)	(677,961)	(363,917)	35,502,601	(168,986)
Changes in risk parameters and model inputs	–	(419,292)	–	(23,964)	–	2,259,034	–	1,815,778
Amounts written-off	–	–	–	–	(3,482,743)	(3,482,743)	(3,482,743)	(3,482,743)
Other movements	–	–	–	–	285,019	94,510	285,019	94,510
At 31 December 2020	214,767,888	589,755	10,495,624	577,740	3,882,251	1,524,819	229,145,763	2,692,314

Summary of financial assets to which subject to the impairment requirements in HKFRS 9 are applied:

2020

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
Loans and advances to customers	205,969,634	588,972	10,495,624	577,740	3,631,176	1,273,744	220,096,434	2,440,456
Other accounts (Note)	8,798,254	783	–	–	251,075	251,075	9,049,329	251,858
	214,767,888	589,755	10,495,624	577,740	3,882,251	1,524,819	229,145,763	2,692,314

19 Loans and advances to customers and other accounts *(continued)*

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts *(continued)*

Note:

The gross carrying amounts and related ECL allowances have included the gross carrying amount of loans and advances to customers and other financial assets which are subject to ECL measurements under HKFRS 9. “Other accounts” as included with the “Loans and advances to customers and other accounts” presented within the consolidated balance sheet also include other assets not subject to impairment requirements under HKFRS 9.

The amount of written-off comprised of principal and interest receivables of HK$2,261,237,000 (2020: HK$3,482,743,000) and HK$65,300,000 (2020: Nil) respectively.

(d) Impaired loans and advances to customers

	2021	2020
	HK$’000	HK$’000
Gross impaired loans and advances to customers	**2,254,240**	3,631,176
Expected credit losses allowances – Stage 3	**(554,531)**	(1,273,744)
	1,699,709	2,357,432
Gross impaired loans and advances as a % of total loans and advances to customers	**0.93%**	1.65%

The secured gross impaired loans and advances to customers amounts to HK$$1,646,035,000 (2020: HK$2,799,388,000) are backed by collateral, collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

19 Loans and advances to customers and other accounts *(continued)*

(e) Net investment in finance leases and hire purchase contracts

Loans and advances to customers include net investment in motor vehicles, and equipment leased to customers under finance leases and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period of 20 years or above, with an option of acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

	2021		2020	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**8,504**	**9,961**	9,153	10,950
After 1 year but within 5 years	**32,055**	**36,785**	33,635	39,283
After 5 years	**56,886**	**60,293**	67,228	71,968
	97,445	**107,039**	110,016	122,201
– Expected credit losses allowances				
– Stage 1	**(6)**		(31)	
Net investment in finance leases and hire purchase contracts	**97,439**		109,985	

20 Financial assets at fair value through other comprehensive income

	2021	2020
	HK$'000	HK$'000
Debt securities		
– Certificates of deposit held	**4,490,521**	5,179,894
– Treasury bills	**39,187,201**	23,503,712
– Other debt securities	**60,169,857**	56,157,194
	103,847,579	84,840,800
Equity securities	**78,869**	110,068
	103,926,448	84,950,868
Issued by:		
Sovereigns	**43,215,443**	25,390,319
Banks and other financial institutions	**43,364,259**	42,392,498
Corporate entities	**15,281,446**	14,846,212
Public entities	**2,065,300**	2,321,839
	103,926,448	84,950,868
Listed	**53,763,088**	49,755,786
Unlisted	**50,163,360**	35,195,082
	103,926,448	84,950,868

20 Financial assets at fair value through other comprehensive income *(continued)*

Reconciliation of gross carrying amount and ECL allowances for financial assets at fair value through other comprehensive income

For the purposes of this disclosure, the gross carrying amounts refer to the fair values of the debt securities measured at FVOCI. Movements in the gross carrying amount are taken through other comprehensive income, except for the recognition of ECL allowances, interest revenue and foreign exchange gains and losses which are recognised in profit and loss.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2021	**84,840,800**	**42,714**	**–**	**–**	**–**	**116,259**	**84,840,800**	**158,973**
Movements with income statement impact								
Transfer between Stages	**(210,023)**	**(11,045)**	**108,976**	**(7,774)**	**101,047**	**18,819**	**–**	**–**
Net financial assets originated/(derecognised or repaid)/changes in fair value	**19,203,555**	**25,904**	**(108,976)**	**356**	**(87,800)**	**(8,791)**	**19,006,779**	**17,469**
Changes in risk parameters and model inputs	**–**	**(31,418)**	**–**	**7,418**	**–**	**65,664**	**–**	**41,664**
At 31 December 2021	**103,834,332**	**26,155**	**–**	**–**	**13,247**	**191,951**	**103,847,579**	**218,106**

20 Financial assets at fair value through other comprehensive income *(continued)*

Reconciliation of gross carrying amount and ECL allowances for financial assets at fair value through other comprehensive income *(continued)*

2020

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2020	76,503,924	61,963	–	–	56,040	75,408	76,559,964	137,371
Movements with income statement impact								
Transfer between Stages	–	–	–	–	–	–	–	–
Net financial assets originated/(derecognised or repaid)/changes in fair value	8,336,876	27,599	–	–	(56,040)	(33,944)	8,280,836	(6,345)
Changes in risk parameters and model inputs	–	(46,848)	–	–	–	76,046	–	29,198
Changes in foreign translation and others	–	–	–	–	–	(1,251)	–	(1,251)
At 31 December 2020	84,840,800	42,714	–	–	–	116,259	84,840,800	158,973

21 Amortised cost investments

	2021 HK$'000	2020 HK$'000
Debt securities		
Treasury bills	**53,378**	48,494
– Expected credit losses allowances		
– Stage 1	**(3)**	(1)
	53,375	48,493
Issued by:		
Sovereigns	**53,375**	48,493
Unlisted	**53,375**	48,493

22 Subsidiaries

The following list contains the particulars of the principal subsidiaries at 31 December 2021 which materially affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	Kind of legal entity	Principal activities	Particulars of issued share capital	Proportion of shares directly held by the Bank	Proportion of shares indirectly held by the Bank
Carford International Limited	Hong Kong	Limited Liability Company	Property holding	HK$2		
CITIC Bank International (China) Limited ("CBI (China)")	People's Republic of China	Limited Liability Company	Banking	RMB1,000,000,000		
CITIC Insurance Brokers Limited	Hong Kong	Limited Liability Company	Insurance broker	HK$5,000,000		
CNCBI Investment Holdings Limited	Hong Kong	Limited Liability Company	Investment holding	HK$511,000,000		
HKCB Finance Limited	Hong Kong	Limited Liability Company	Consumer financing	HK$200,000,000		
The Hongkong Chinese Bank (Nominees) Limited	Hong Kong	Limited Liability Company	Nominee services	HK$5,000		
The Ka Wah Bank (Trustee) Limited	Hong Kong	Limited Liability Company	Trustee services	HK$3,000,000		
CNCBI Asset Management Limited	Hong Kong	Limited Liability Company	Asset management	HK$60,000,000		

23 Property and equipment

	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 2021	**254,830**	**661,671**	**1,100,813**	**2,017,314**
Additions	**–**	**–**	**111,588**	**111,588**
Reclassification	**185,000**	**(185,000)**	**–**	**–**
Disposals	**–**	**–**	**(35,831)**	**(35,831)**
Surplus on revaluation	**6,777**	**159,602**	**–**	**166,379**
Elimination of accumulated depreciation on revaluation	**–**	**(19,277)**	**–**	**(19,277)**
Exchange adjustments	**–**	**–**	**1,671**	**1,671**
At 31 December 2021	**446,607**	**616,996**	**1,178,241**	**2,241,844**
Cost or valuation:				
At 1 January 2020	229,130	666,008	1,038,240	1,933,378
Additions	–	–	127,466	127,466
Reclassification	60,000	(60,000)	–	–
Disposals	–	–	(69,243)	(69,243)
(Deficit)/surplus on revaluation	(34,300)	58,686	–	24,386
Elimination of accumulated depreciation on revaluation	–	(3,023)	–	(3,023)
Exchange adjustments	–	–	4,350	4,350
At 31 December 2020	254,830	661,671	1,100,813	2,017,314
Accumulated depreciation:				
At 1 January 2021	**–**	**370,807**	**879,871**	**1,250,678**
Charge for the year (note 9)	**–**	**15,709**	**102,699**	**118,408**
Elimination of accumulated depreciation on revaluation	**–**	**(19,277)**	**–**	**(19,277)**
Written back on disposals	**–**	**–**	**(34,820)**	**(34,820)**
Exchange adjustments	**–**	**–**	**1,039**	**1,039**
At 31 December 2021	**–**	**367,239**	**948,789**	**1,316,028**
Accumulated depreciation:				
At 1 January 2020	–	358,085	847,130	1,205,215
Charge for the year (note 9)	–	15,745	97,713	113,458
Elimination of accumulated depreciation on revaluation	–	(3,023)	–	(3,023)
Written back on disposals	–	–	(68,608)	(68,608)
Exchange adjustments	–	–	3,636	3,636
At 31 December 2020	–	370,807	879,871	1,250,678
Net book value:				
At 31 December 2021	**446,607**	**249,757**	**229,452**	**925,816**
At 31 December 2020	254,830	290,864	220,942	766,636

23 Property and equipment *(continued)*

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, 'Fair Value Measurement'. The level into which a fair value measurement classified is determined with reference to the observability and significance of the input used in the valuation technique as follows:

Level 1 –
Quoted (unadjusted) market price in active markets for identical assets at the measurement date.

Level 2 –
Valuation techniques based on 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.

Level 3	**2021** **HK$'000**	2020 HK$'000
Recurring fair value measurement using significant unobservable input		
Investment properties		
– Held in Hong Kong	**416,000**	231,000
– Held outside Hong Kong	**30,607**	23,830
	446,607	254,830

23 Property and equipment *(continued)*

(a) Fair value measurement of investment properties *(continued)*

(i) Fair value hierarchy (continued)

During the years ended 31 December 2021 and 2020, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All investment properties of the Group were revalued and assessed by the management of the Group at 31 December 2021 with reference to the property valuation report conducted by an independent firm of surveyors. The basis of the property valuation was market value, which is consistent with the definition of fair value under HKFRS 13, 'Fair Value Measurement'. The revaluation surplus of HK$6,777,000 (2020: a revaluation deficit of HK$34,300,000) was recognised by the Group and has been charged to the income statement.

(ii) Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2021 **HK$'000**	2020 HK$'000
At 1 January	**254,830**	229,130
Reclassification from other premises	**185,000**	60,000
Fair value adjustment	**6,777**	(34,300)
At 31 December	**446,607**	254,830

(iii) Information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Range
Investment properties	Market comparison approach	Premium (discount) on quality of properties	-15% to 15%

The fair value of investment properties located in or outside Hong Kong is determined by using the market comparison approach by reference to the recent sales price of comparable properties on a price per-square-foot basis, adjusted for a premium or a discount specific to the quality of the Group's or the Bank's properties compared to the recent sales. The carrying amount of the investment properties would be changed according the price per-square-foot.

23 Property and equipment *(continued)*

(b) The analysis of net book value of investment properties and other premises is as follows:

	2021	2020
	HK$'000	HK$'000
Leasehold		
Held in Hong Kong		
– Long-term leases (over 50 years unexpired)	**274,847**	116,862
– Medium-term leases (10 to 50 years unexpired)	**390,910**	405,002
Held outside Hong Kong		
– Medium-term leases (10 to 50 years unexpired)	**30,607**	23,830
	696,364	545,694

The gross rental income arising from investment properties is HK$4,151,000 (2020: HK$3,296,000).

Some of the other premises of the Group were revalued in previous years. The net book value of such other premises of the Group at 31 December 2021 would have been HK$967,000 (2020: HK$4,014,000) had they been carried at cost less accumulated depreciation.

(c) Property and equipment leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date, at which time all terms are renegotiated.

The Group's total future minimum lease receivable under non-cancellable operating leases for investment and subletting properties are as follows:

	2021	2020
	HK$'000	HK$'000
Within 1 year	**2,017**	3,363
After 1 year but within 5 years	**1,849**	322
	3,866	3,685

24 Right-of-use assets

	Leased premises HK$'000	Equipment and others HK$'000	Total HK$'000
Cost:			
At 1 January 2021	**1,182,297**	**1,170**	**1,183,467**
Additions	**168,310**	**731**	**169,041**
Reductions	**(99,417)**	**–**	**(99,417)**
Adjustments	**(124,696)**	**–**	**(124,696)**
Exchange adjustments	**623**	**(25)**	**598**
At 31 December 2021	**1,127,117**	**1,876**	**1,128,993**
Cost:			
At 1 January 2020	975,837	1,152	976,989
Additions	304,936	–	304,936
Reductions	(105,908)	–	(105,908)
Exchange adjustments	7,432	18	7,450
At 31 December 2020	1,182,297	1,170	1,183,467
Accumulated depreciation:			
At 1 January 2021	**485,859**	**955**	**486,814**
Charge for the year (note 9)	**297,456**	**303**	**297,759**
Reductions	**(99,417)**	**–**	**(99,417)**
Adjustments	**(115,676)**	**–**	**(115,676)**
Exchange adjustments	**426**	**(16)**	**410**
At 31 December 2021	**568,648**	**1,242**	**569,890**
Accumulated depreciation:			
At 1 January 2020	297,168	314	297,482
Charge for the year (note 9)	291,148	628	291,776
Reductions	(105,908)	–	(105,908)
Exchange adjustments	3,451	13	3,464
At 31 December 2020	485,859	955	486,814
Net book value:			
At 31 December 2021	**558,469**	**634**	**559,103**
At 31 December 2020	696,438	215	696,653

The total cash outflow for leases in 2021 was HK$310,363,000 (2020: HK$310,398,000).

25 Intangible assets

	Software
	HK$'000
Cost:	
At 1 January 2021	**1,636,220**
Additions	**151,450**
Disposals	**(3,232)**
Exchange adjustments	**557**
At 31 December 2021	**1,784,995**
Cost:	
At 1 January 2020	1,380,991
Additions	258,041
Disposals	(5,215)
Exchange adjustments	2,403
At 31 December 2020	1,636,220
Accumulated amortisation:	
At 1 January 2021	**1,001,119**
Charge for the year (note 9)	**244,816**
Disposals	**(1,184)**
Exchange adjustments	**465**
At 31 December 2021	**1,245,216**
Accumulated amortisation:	
At 1 January 2020	796,182
Charge for the year (note 9)	207,597
Disposals	(4,863)
Exchange adjustments	2,203
At 31 December 2020	1,001,119
Net book value:	
At 31 December 2021	**539,779**
At 31 December 2020	635,101

26 Deposits from customers

	2021	2020
	HK$'000	HK$'000
Demand deposits and current deposits	**47,967,296**	39,341,433
Savings deposits	**79,244,545**	61,272,117
Time, call and notice deposits	**200,556,192**	209,263,466
	327,768,033	309,877,016

27 Certificates of deposit issued

	2021	2020
	HK$'000	HK$'000
At amortised cost	**1,481,389**	–

Certificates of deposit issued are the Yankee bonds issued by the US branches of the Group.

28 Income tax in the consolidated statement of financial position

(a) Current taxation in the statement of financial position represents:

	2021	2020
	HK$'000	HK$'000
Hong Kong Profits Tax	**89,716**	(42,982)
Taxation outside Hong Kong	**30,992**	7,189
	120,708	(35,793)
Of which:		
Tax recoverable	–	(55,449)
Current taxation	**120,708**	19,656
	120,708	(35,793)

28 Income tax in the consolidated statement of financial position *(continued)*

(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:

	Depreciation allowances in excess of related depreciation HK$'000	Impairment allowances for loans and advances HK$'000	Revaluation adjustments for properties HK$'000	Impairment allowances and revaluation adjustments for FVOCI HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
Deferred tax arising from:							
At 1 January 2021	**117,322**	**(229,402)**	**904**	**86,069**	**(138,416)**	**(9,680)**	**(173,203)**
Charged/(credited) to income statement (note 12)	**(14,916)**	**(19,776)**	**637**	**–**	**137,729**	**(2,519)**	**101,155**
Credited to reserves	**–**	**–**	**–**	**(95,962)**	**–**	**–**	**(95,962)**
Exchange and other adjustments	**(27)**	**79**	**–**	**–**	**687**	**(74)**	**665**
At 31 December 2021	**102,379**	**(249,099)**	**1,541**	**(9,893)**	**–**	**(12,273)**	**(167,345)**
At 1 January 2020	107,026	(454,177)	1,965	43,755	–	(11,594)	(313,025)
Charged/(credited) to income statement (note 12)	10,350	224,631	(1,061)	–	(136,306)	2,128	99,742
Charged to reserves	–	–	–	42,314	–	–	42,314
Exchange and other adjustments	(54)	144	–	–	(2,110)	(214)	(2,234)
At 31 December 2020	117,322	(229,402)	904	86,069	(138,416)	(9,680)	(173,203)

28 Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

	2021	2020
	HK\$'000	HK\$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(168,886)**	(174,107)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**1,541**	904
	(167,345)	(173,203)

Among the deferred tax assets and liabilities, the whole amount is expected to be recovered or settled more than twelve months after the year-end.

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$636,000 (2020: HK\$636,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

29 Other liabilities

	2021	2020
	HK\$'000	HK\$'000
Accruals and other payables and provisions	**8,388,557**	7,796,058
Deposit from an immediate holding company	**2,329,979**	2,282,116
	10,718,536	10,078,174

At 31 December 2021, included above is the expected credit losses allowances on loan commitments and guarantees for Stages 1 and 2 amounted to HK\$141,026,000 and HK\$1,434,000 respectively (2020: Stage 1: HK\$125,762,000 and Stage 2: HK\$892,000).

At 31 December 2021, the amount of interest payables from financial liabilities at amortised cost were HK\$470,014,000 (2020: HK\$473,133,000).

30 Loan capital

	2021	2020
	HK$'000	HK$'000
Subordinated notes, at amortised cost:		
US$500 million Subordinated Fixed Rate Notes at		
4.625%, due 2029*	**3,883,863**	3,855,374

* Under the Programme and supplemental offering circulars released in February 2019, the Bank issued subordinated notes on 28 February 2019 with a face value of US$500 million (equivalent to HK$3,925.6 million) and which qualified as Basel III-compliant Tier-2 capital. The notes carry interest at a fixed rate of 4.625% per annum, payable semi-annually until 28 February 2024, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 2.25% per annum if the notes are not redeemed on the call date. The notes are listed on The Stock Exchange of Hong Kong Limited and mature on 28 February 2029 with an optional redemption date falling on 28 February 2024.

31 Capital and reserves

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	2021		2020	
	Number of shares	**Share capital HK$'000**	Number of shares	Share capital HK$'000
At 1 January/31 December	**12,111,121,568**	**18,404,013**	12,111,121,568	18,404,013

(ii) Shares issued during the year

The Bank did not issue any shares during the year ended 31 December 2021 (2020: Nil).

(b) Dividend

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 shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

31 Capital and reserves *(continued)*

(c) Nature and purpose of components of reserves

(i) Capital reserve

The capital reserve was created upon acquisition and is not available for distribution to shareholders.

(ii) General reserve

The general reserve was set up from the transfer of retained earnings, and is available for distribution to shareholders.

(iii) Exchange differences reserve

The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.2(q).

(iv) Property revaluation reserve

The property revaluation reserve is dealt with in accordance with the accounting polices set out in note 2.2(j) and is not available for distribution to shareholders because it does not constitute realised profits within the meaning of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

(v) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2.2(c)(iv).

(vi) Statutory reserve

Under the relevant legislation of Mainland China, the Bank’s wholly-owned PRC subsidiary, CBI (China) is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(vii) Regulatory general reserve

Pursuant to the banking regulations of Mainland China, CBI (China) is required to set up a regulatory general reserve through a direct appropriation from the current year profit, as determined based on the 1.5% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

31 Capital and reserves *(continued)*

(c) Nature and purpose of components of reserves *(continued)*

(viii) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 31 December 2021, HK$2,061,314,000 (2020: HK$1,926,768,000) was included in the retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

(d) Distributability of reserve

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Bank, as calculated under the provision of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), was HK$18,624,154,000 (2020: HK$17,405,628,000). The difference between the aggregate distributable reserves of HK$18,624,154,000 (2020: HK$17,405,628,000) and the Bank's retained profits of HK$20,743,717,000 (2020: HK$19,390,645,000) as reported in note 42(b) mainly represents the inclusion of general reserves and the exclusion of unrealised revaluation gains on investment properties and the above regulatory reserve of the Bank. Included in the Bank's retained profits was an amount of HK$2,061,314,000 (2020: HK$1,926,768,000), which was regulatory reserve and the distribution is subject to consultation with the HKMA.

32 Other equity instruments

	2021	2020
	HK$'000	HK$'000
Undated non-cumulative subordinated capital securities with US$500 million*	**–**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million**	**3,907,328**	3,907,328
Undated non-cumulative subordinated capital securities with US$600 million***	**4,647,489**	–
	8,554,817	7,770,412

32 Other equity instruments *(continued)*

* Under the Programme and the new and supplemental offering circulars release in August and September 2016, respectively, the Bank priced its US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the legal binding subscription agreements signed on 29 September 2016. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,877.86 million) are perpetual and listed on The Stock Exchange of Hong Kong Limited, and bear a coupon of 4.25% per annum for the first 5 years from the date of issue to the optional redemption date falling on 11 October 2021. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank at a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.107% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrears on 11 April and 11 October in each year. The Bank may at its sole discretion, elect to cancel the distribution payment. The Bank may also at its sole discretion, elect to redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$21,250,000 (equivalent to HK$165,427,000) was paid during the year ended 31 December 2021. (2020: US$21,250,000, equivalent to HK$164,700,000). The notes were fully redeemed by the Bank during the year ended 31 December 2021.

** Under the Programme and supplemental offering circulars released in October 2018, the Bank issued the US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 6 November 2018. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,916.90 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 7.10% per annum distribution rate until the first call date on 6 November 2023. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.151% per annum.

32 Other equity instruments *(continued)*

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrear on 6 May and 6 November in each year. The Bank may at its sole discretion, elect to cancel the distribution payment. The Bank may also at its sole discretion, elect to redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$35,500,000 (equivalent to HK$276,005,000) was paid during the year ended 31 December 2021. (2020: US$35,500,000, equivalent to HK$275,187,000).

*** Under the Programme and the original and supplemental offering circulars released in June and July 2021, the Bank issued the US$600 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 29 July 2021. The AT1 Capital Securities with a face value and principal amount of US$600 million (equivalent to HK$4,663.24 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 3.25% per annum distribution rate until the first call date on 29 July 2026. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 2.53% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrear on 29 January and 29 July in each year. The Bank may at its sole discretion, elect to cancel the distribution payment. The Bank may also at its sole discretion, elect to redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628).

33 Notes to consolidated cash flow statement

	2021 HK$'000	2020 HK$'000
(a) Reconciliation of operating profit to net cash flow from operating activities		
Operating activities		
Profit before taxation	**2,500,399**	1,306,088
Adjustments for non-cash items:		
Expected credit losses charged on financial assets	**1,782,919**	2,356,656
Impairment losses reversed on other assets	**(13,731)**	(4,176)
Net loss on disposal of financial assets at fair value through other comprehensive income	**118,884**	33,428
Net loss on disposal of property and equipment and intangible assets	**2,915**	961
Revaluation (gain)/loss on investment properties	**(6,777)**	34,300
Amortisation of deferred expenses	**31,455**	89,954
Amortisation of intangible assets	**244,816**	207,597
Depreciation on property and equipment	**118,408**	113,458
Depreciation on right-of-use assets	**297,759**	291,776
Dividend income from equity securities	**(3,810)**	(4,330)
Interest expense on loan capital and debt securities issued	**186,106**	315,332
Foreign exchange differences	**(23,613)**	(650,433)
Operating profit before changes in working capital	**5,235,730**	4,090,611
Net decrease/(increase) in operating assets		
Placements with and advances to banks with original maturity beyond 3 months	**127,200**	4,203,829
Treasury bills with original maturity beyond 3 months	**(14,507,349)**	(403,416)
Certificates of deposit held with original maturity beyond 3 months	**447,047**	797,370
Financial assets at fair value through profit or loss	**(104,332)**	(740,706)
Derivative financial instruments	**5,489,759**	(8,094,993)
Loans and advances to customers and other accounts	**(24,352,035)**	(35,549,178)
Financial assets at fair value through other comprehensive income	**(4,687,866)**	(6,573,671)
	(37,587,576)	(46,360,765)

33 Notes to consolidated cash flow statement *(continued)*

	2021	2020
	HK$'000	HK$'000
(a) Reconciliation of operating profit to net cash flow from operating activities *(continued)*		
Net (decrease)/increase in operating liabilities		
Deposits and balances of banks and other financial institutions	**8,258,019**	(1,795,225)
Deposits from customers	**17,887,826**	32,993,142
Derivative financial instruments	**(6,393,948)**	8,797,128
Financial liabilities at fair value through profit or loss	**477,821**	143,685
Certificates of deposit issued	**1,475,336**	(3,107,444)
Other liabilities	**640,880**	(119,982)
	22,345,934	36,911,304
Cash used in operating activities	**(10,005,912)**	(5,358,850)
Income tax paid		
Hong Kong Profits Tax paid	**(74,703)**	(730,888)
Taxation outside Hong Kong paid	**(39,916)**	(37,747)
Net cash flow used in operating activities	**(10,120,531)**	(6,127,485)
Cash flows from operating activities included:		
Interest received	**8,020,173**	8,585,922
Interest paid	**(2,324,587)**	(4,036,553)
(b) Analysis of the balances of cash and cash equivalents		
Cash and balances with banks and central banks	**28,235,584**	32,181,569
Placements with and advances to banks with original maturity within 3 months	**20,990,458**	17,336,484
Treasury bills and certificates of deposit held with original maturity within 3 months:		
–		
Financial assets at fair value through other comprehensive income	**18,574,671**	28,738,503
– Financial assets at amortised cost	**53,378**	48,493
	67,854,091	78,305,049

33 Notes to consolidated cash flow statement *(continued)*

(c) Changes in liabilities arising from financing activities

	2021	2020	
	Loan capital	Debt securities issued	Loan capital
Liabilities from financing activities	**HK$'000**	HK$'000	HK$'000
At 1 January	**3,855,374**	3,346,067	6,249,182
Redemption	**–**	(3,252,833)	(2,359,017)
Foreign exchange differences	**22,140**	(94,911)	(23,025)
Other non-cash adjustments	**6,349**	1,677	(11,766)
At 31 December	**3,883,863**	–	3,855,374

	2021	2020
	Lease liabilities	Lease liabilities
Liabilities from financing activities	**HK$'000**	HK$'000
At 1 January	**722,894**	695,870
Payment of lease liabilities	**(310,351)**	(313,626)
Other non-cash items:		
– Additions	**169,041**	304,936
– Adjustments	**(12,605)**	–
– Other changes	**23,642**	35,714
At 31 December	**592,621**	722,894

34 Staff retirement scheme

The Group has a defined contribution provident fund scheme ("the Retirement Scheme") under which it contributes 10% of the employees' basic salaries. The Retirement Scheme is a Mandatory Provident Fund ("MPF") exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully may not be used by the Group to reduce the existing level of contribution, but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme's members.

In addition to the Retirement Scheme, the Group has also participated in an approved MPF scheme effective from 1 December 2000 to provide a choice of schemes to both existing and new employees. Mandatory benefits are provided under the MPF Scheme.

34 Staff retirement scheme *(continued)*

During the year, the Group contributed approximately HK$137,883,000 (2020: HK$124,372,000) (note 9) to these schemes.

35 Assets pledged as security

	2021	2020
	HK$'000	HK$'000
Assets pledged as security		
Financial assets at fair value through other comprehensive income pledged as statutory deposits (Note i)	**218,118**	92,980
Other assets (Note ii)	**75,867**	–
	293,985	92,980

Note:

(i) The assets pledged represented statutory deposits pledged by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(ii) The assets were pledged as "collateral" under the sale and repurchase transactions for the secured liabilities which were included in other liabilities.

36 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with group companies

During the year, the Group entered into a number of transactions with related parties in the normal course of its banking business; including, inter alia, lending, acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the Directors, these transactions were conducted on normal commercial terms.

36 Material related party transactions *(continued)*

(a) Transactions with group companies *(continued)*

The amount of related party transactions during the year and outstanding balances at the end of the year are set out below:

	Ultimate holding and intermediate parents		Immediate parent		Fellow subsidiaries		Associates & Joint Venture (note (i))		Related companies (note (ii))	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**24,892**	66,095	**–**	–	**50,340**	25,206	**26,848**	41,743	**–**	–
Interest expense	**(21,439)**	(12,433)	**(8,128)**	(16,958)	**(19,929)**	(33,251)	**(59,091)**	(68,551)	**(2)**	(41)
Fee and commission income	**390**	271	**–**	–	**2,308**	–	**152**	–	**–**	–
Trading gain/(loss) on derivatives	**(4,824)**	610,433	**–**	–	**50,095**	(9,714)	**(176,310)**	(3,813)	**1,888**	450
Other operating income	**–**	–	**5,000**	4,200	**–**	–	**–**	–	**–**	–
Other operating expenses	**(10,373)**	(2,454)	**(5,000)**	(4,200)	**(30,298)**	(24,351)	**(4,861)**	(760)	**–**	(1,488)
Assets										
Financial assets at fair value through other comprehensive income	**–**	–	**–**	–	**231,110**	117,038	**764,290**	956,092	**–**	–
Financial assets at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**–**	3,522	**–**	–
Derivative financial instruments	**611,179**	775,480	**–**	–	**–**	6,621	**5,813**	13,822	**–**	–
Other receivables	**168,759**	262,443	**–**	–	**7,964**	4,609	**106,288**	11,175	**–**	1,137
Liabilities										
Derivative financial instruments	**502,941**	363,927	**–**	–	**7,337**	27,922	**122,138**	3,202	**–**	–
Other payables	**36,920**	64,996	**1,344**	–	**16,287**	10,355	**133,823**	4,945	**–**	–
Lease liabilities	**–**	–	**–**	–	**3,258**	–	**11,957**	–	**–**	–
Financial liabilities at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**57,504**	–	**–**	–
Lending activities										
At 31 December	**124,452**	1,111,479	**–**	–	**7,356,989**	1,387,936	**211,245**	78,523	**–**	1,216
Average for the year	**1,034,553**	4,467,183	**–**	–	**2,999,024**	963,090	**421,366**	1,029,184	**1,428**	880,243
Acceptance of deposits										
At 31 December	**3,356,762**	5,165,421	**2,318,575**	2,271,114	**5,599,954**	3,726,340	**7,815,690**	6,812,972	**43,711**	133,863
Average for the year	**3,244,602**	1,500,471	**2,293,844**	1,933,359	**6,001,734**	5,134,930	**7,217,905**	3,952,402	**94,346**	384,047
Off-statement of financial position items										
Acceptances, guarantees and letters of credit – contract amounts payable	**–**	–	**–**	–	**(3,000)**	(3,000)	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**393,103**	–	**1,839,923**	759,000	**–**	–
Derivative financial instruments – notional amounts	**26,449,376**	83,480,959	**–**	–	**812,661**	2,029,090	**14,455,435**	5,789,552	**–**	–

36 Material related party transactions *(continued)*

(a) Transactions with group companies *(continued)*

No impairment allowances were made in respect of the above loans to and placements with related parties.

Note:

(i) Associates & joint venture of the Group include the associates and joint venture of the ultimate controlling party and immediate parent.

(ii) Related companies refers to companies which are common shareholders with significant influence over the Group, and subsidiaries of shareholders with significant influence over the intermediate parent.

(b) Transactions with key management personnel

The aggregate amount of remuneration of key management personnel of the Group, including the amount paid to the Bank's Directors as disclosed in note 10, are as follows:

	2021	2020
	HK$'000	HK$'000
Short-term employee benefits	**84,726**	66,508
Post-employment benefits	**3,313**	3,461
	88,039	69,969

Total remuneration is included in 'staff costs' (note 9).

During the year, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members, as well as to companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees.

	2021	2020
	HK$'000	HK$'000
At 1 January	**17,122**	12,832
At 31 December	**13,818**	17,122
Maximum amount during the year	**19,421**	23,410

36 Material related party transactions *(continued)*

(b) Transactions with key management personnel *(continued)*

No impairment losses were recorded against outstanding balances with key management personnel during the year, and no individually assessed impairment allowance was made on balances with key management personnel and their immediate relatives at the year end.

(c) Loans to directors

Particulars of loans to directors disclosed pursuant to Section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G) for the year ended 31 December 2021 and 2020 are shown as below.

	2021	2020
	HK$'000	HK$'000
Aggregate amount of relevant loans made by the Bank at 31 December		
– Loans and advances	**5,748**	12,712
– Committed facility	**18,889**	23,070
Maximum aggregate amount of relevant loans made by the Bank during the year		
– Loans and advances	**15,929**	15,170

There were no impairment allowances made against these loans at 31 December 2021 and 2020.

37 Financial risk management

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Risk Management Group ("RMG") has been entrusted with the ongoing responsibilities of driving and implementing the Group's risk management framework and governance encompassing the identification, quantification, monitoring, reporting, and mitigation of the risks to which the Group is exposed.

37 Financial risk management *(continued)*

The Group adopts the Standardised Approach for credit and market risk measurement, and the Basic Indicator Approach for operational risk measurement. The Group has established policies, procedures and processes to identify and set appropriate risk limits, as well as to analyse, control and monitor these risks. The Group continually strives to enhance its risk management framework and infrastructure in keeping with the market, product offerings and international best practices. The Group's internal auditor performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

The Group manages the following main types of risk:

(a) Credit risk management

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to fulfill its contractual obligations. Credit exposure principally arises in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in off-balance sheet financial positions such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment and to better reflect the risk factors for the Group's credit considerations.

Throughout the full year of 2021, the Group continues to enhance its risk management framework and internal control practices by solidifying its three lines of defence, promoting risk culture and reviewing its risk appetite and policies to ensure its compliance with regulatory requirements. Various risk management enhancement projects and initiatives have been launched to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. These projects included Initial Margin Standard for non-centrally cleared over-the-counter derivatives, Standardized Approach to Counterparty Credit Risk, and pilot climate risk stress test etc. Furthermore, the Group is in the process of implementing the Basel III Reform Package, while gradually building resilience against climate risk by incorporating considerations into its governance and promoting the risk culture of green and sustainable banking.

Credit risk is controlled and managed by the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

Credit risk embedded in products is identified and measured in product programmes and on-going review and assessment process. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified among industry and product sectors.

Credit risk for treasury transactions is managed in the same way as the Group manages its corporate risk. Risk grading is applied to the debt issuers and the counterparties, with individual credit limits set.

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to the Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(i) Credit quality

The Group has adopted a granular 24-grade internal risk rating system (Grades G01-G21 for performing financial assets and Grades G22-G24 for non-performing financial assets) that maps to external credit rating agencies' rating scales. The integration of this framework into the Group's reporting structure has enabled more granular credit risk reporting, thus enhancing the internal management. The risk rating are assigned according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of G19-G21) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

	Reference ECAI Rating			
Obligor Grade	**Moody's**	**S&P**	**Fitch**	**Rating Description**
G01	Aaa	AAA	AAA	Obligations are judged to have the highest intrinsic, or standalone, financial strength, and thus subject to the lowest level of credit risk absent any possibility of extraordinary support from an affiliate or government.
G02 – G04	Aa1/Aa2/Aa3	AA+/AA/AA-	AA+/AA/AA-	Obligations are judged to have high intrinsic, or standalone, financial strength, and thus subject to very low credit risk absent any possibility of extraordinary support from an affiliate or government.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(i) Credit quality(continued)

	Reference ECAI Rating			
Obligor Grade	**Moody's**	**S&P**	**Fitch**	**Rating Description**
G05 – G07	A1/A2/A3	A+/A/A-	A+/A/A-	Obligations are judged to have upper-medium-grade intrinsic, or standalone, financial strength, and thus subject to low credit risk absent any possibility of extraordinary support from an affiliate or government.
G08 – G10	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB+/BBB/BBB-	Obligations are judged to have medium-grade intrinsic, or standalone, financial strength, and thus subject to moderate credit risk and, as such, may possess certain speculative credit elements absent any possibility of extraordinary support from an affiliate or government.
G11 – G13	Ba1/Ba2/Ba3	BB+/BB/BB-	BB+/BB/BB-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to substantial credit risk absent any possibility of extraordinary support from an affiliate or government.
G14 – G16	B1/B2/B3	B+/B/B-	B+/B/B-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to high credit risk absent any possibility of extraordinary support from an affiliate or government.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(i) Credit quality(continued)

	Reference ECAI Rating			
Obligor Grade	**Moody's**	**S&P**	**Fitch**	**Rating Description**
G17 – G18	Caa1/Caa2	CCC+/CCC	CCC+/CCC	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to very high credit risk absent any possibility of extraordinary support from an affiliate or government.
G19 Special Mention	Caa3	CCC-	CCC-	Obligations are judged to have highly speculative intrinsic, and are likely in, or near, default, with some prospect of recovery of principal and interest.
G20 Special Mention	Ca	CC	CC	Obligations are judged to have highly speculative intrinsic, and are likely in, or very near, default, with some prospect of recovery of principal and interest.
G21 Special Mention	C	C	C	Obligations are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.
G22 Substandard	D	D	D	Substandard. In accordance with the Asset Quality Classification Policy.
G23 Doubtful	D	D	D	Doubtful. In accordance with the Asset Quality Classification Policy.
G24 Loss	D	D	D	Loss. In accordance with the Asset Quality Classification Policy.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(ii) Exposure of credit risk

The maximum exposure to credit risk at the end of the reporting period, without considering 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 allowances. A summary of the maximum exposure is as follows:

	2021	2020
	HK$'000	HK$'000
Cash and balances with banks and central banks	**28,592,214**	32,571,718
Placements with and advances to banks	**21,058,640**	28,969,830
Financial assets at fair value through profit or loss	**3,106,275**	2,649,076
Derivative financial instruments	**8,888,842**	14,378,601
Loans and advances to customers and other accounts	**248,878,247**	226,169,265
Financial assets at fair value through other comprehensive income	**103,847,579**	84,840,800
Amortised cost investments	**53,375**	48,493
Financial guarantees and other credit-related contingent liabilities	**7,827,251**	20,252,337
Loan commitments and other credit-related commitments	**114,297,882**	97,891,862
	536,550,305	507,771,982

Further detailed analyses of financial assets by credit quality and stage distribution are provided in the note 37(a)(vii) of the consolidated financial statements.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(iii) Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty are terminated and all amounts outstanding are 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. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

			2021		
		Derivative financial instruments presented in the statement of financial position	Related amounts that are not offset in the statement of financial position		
			Financial instruments	Cash collateral received	Net amount
		HK$'000	HK$'000	HK$'000	HK$'000
- 衍生金融工具（附註18(b)）	– Derivative financial instruments (note 18(b))	**8,888,842**	**(3,987,107)**	**(990,197)**	**3,911,538**
- 衍生金融工具（附註18(b)）	– Derivative financial instruments (note 18(b))	**8,766,335**	**(3,987,107)**	**–**	**4,779,228**

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(iii) Master netting arrangement (continued)

	2020			
		Related amounts that are not offset in the statement of financial position		
	Derivative financial instruments presented in the statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	淨額 Net amount HK$'000
– Derivative financial instruments (note 18(b))	14,378,601	(7,335,314)	(1,648,722)	5,394,565
– Derivative financial instruments (note 18(b))	15,160,283	(7,335,314)	–	7,824,969

(iv) Mitigation of credit risk – Collateral and other credit enhancements

The Group is dedicated to mitigating credit risk, and this takes many forms. In general, risk to the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation.

The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities listed on a main index/recognised exchanges, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, some loans may be granted and backed by corporate or personal guarantees only.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(iv) Mitigation of credit risk – Collateral and other credit enhancements (continued)

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on securities.

The Group's collateralised credit risk at 31 December 2021 and 31 December 2020, excluding impaired exposure, is broken down as follows:

	2021	2020
	HK$'000	HK$'000
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	**100,926,081**	98,874,080
– past due but not impaired	**1,659,866**	1,866,376
	102,585,947	100,740,456

(v) Portfolio management and risk concentration

Portfolio management

As part of the Group's portfolio management practices, a Risk-based Pricing Model has been adopted with the aim of improving the overall return for the Group, after taking into account the risks of the customers and facilities, and thus the capital required to support the loan exposure and other costs. Stress tests on the Group's credit risk are conducted regularly. The result is approved by the relevant committees and is endorsed by the Board through the CRMC.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(v) Portfolio management and risk concentration (continued)

Risk concentration

The Group sets various risk limits to control and monitor its exposure to individual counterparties, countries, industries, intragroup exposures and loan portfolios to avoid excessive risk concentration.

Concentration of credit risk exists when changes in geographic, economic or industry factors affect groups of linked counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along industry and product sectors.

(vi) Expected credit losses measurement

ECL allowances are recognised on all financial assets that are debt instruments classified either as amortised or fair value through other comprehensive income and for loan commitments and financial guarantees that are not measured at fair value through profit and loss. The ECL allowances represent an unbiased scenario that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances and expert judgement on economic forecasts becomes one of the important factors to the ECL.

Measurement of ECL

ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk ('SICR') since initial recognition. The calculation of ECL allowances is based on the expected value of probability-weighted scenarios with a combination of upside, base and downside scenario(s) to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Group expects to receive. The calculation of ECL allowances for Stage 3 is based on probability-weighted recovery amount from an impaired financial asset and is determined by evaluating a range of possible outcomes and time value of money.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

Measurement of ECL (continued)

The key inputs in the measurement of ECL allowances for Stage 1 and Stage 2 are as follows:

– The probability of default (“PD”) is an estimate of the likelihood of default over a given time horizon;

– The loss given default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time; and

– The exposure at default (“EAD”) is an estimate of the exposure at a future default date.

Stage transfer

Stage 1 is comprised of all non-impaired financial assets which have not triggered a SICR since initial recognition. Their credit risk continuously monitored by the Group and in assessing whether credit risk has increased significantly, the Group compares the risk of a default occurring on the financial instruments as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of its initial recognition.

Stage 2 is comprised of all non-impaired financial assets which have triggered a SICR since initial recognition. The Group recognises lifetime ECL for stage 2 financial assets. In subsequent reporting periods, if the credit risk of the financial assets improves such that there is no longer a SICR since initial recognition, then the Group reverts to recognising 12 months of ECL as the financial assets have transferred back stage 1.

Stage 3 financial assets are those that the Group has classified as credit-impaired. The Group recognises lifetime ECL for all stage 3 financial assets. The Group classifies financial assets as impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

Stage transfer (continued)

For purchased or originated credit-impaired financial assets that are credit-impaired on initial recognition, their ECL allowances are always measured on a lifetime basis.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the remaining life of the financial instrument, even if, for risk management purposes, the Group has the right to consider a longer period.

Financial assets presented in the reconciliation summary comprise balances with banks, central banks and other financial institutions, placement with and advances to banks, central banks and other financial institutions, loans and advances to customers, other assets at amortised cost, FVOCI – debt securities and amortised cost investments. For the purposes of this disclosure, the gross carrying amounts refer to the fair values of the FVOCI – debt securities. Movements in the gross carrying amount are taken through other comprehensive income, except for the recognition of ECL allowances, interest revenue and foreign exchange gains and losses which are recognised in profit and loss.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

The ECL reconciliation summary analyse the key elements that drive the movement of ECL and related income statement over the reporting period. The key elements included below are:

	2021							
	第1階段 Stage 1		第2階段 Stage 2		第3階段 Stage 3		總額 Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2021	**353,817,915**	**646,089**	**10,495,624**	**577,740**	**3,882,251**	**1,641,078**	**368,195,790**	**2,864,907**
Transfer:								
– Transfer to Stage 1	6,880,189	258,654	(6,830,158)	(258,650)	(50,031)	(4)	–	–
– Transfer to Stage 2	(11,180,125)	(30,553)	11,214,569	34,564	(34,444)	(4,011)	–	–
– Transfer to Stage 3	(193,286)	(182)	(1,709,521)	(68,494)	1,902,807	68,676	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(106,253)	–	89,337	–	289,188	–	272,272
Net financial assets originated/ (derecognised or repaid)/ changes in fair value	36,848,215	376,282	(3,293,154)	(148,738)	(942,173)	(104,258)	32,612,888	123,286
Changes in risk parameters, model inputs and management overlay	–	36,492	–	(50,792)	–	1,478,342	–	1,464,042
Amounts written-off	–	–	–	–	(2,326,537)	(2,326,537)	(2,326,537)	(2,326,537)
Other movement	–	–	–	–	180,464	48,859	180,464	48,859
At 31 December 2021	**386,172,908**	**1,180,529**	**9,877,360**	**174,967**	**2,612,337**	**1,091,333**	**398,662,605**	**2,446,829**

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

	2020							
	第1階段 Stage 1		第2階段 Stage 2		第3階段 Stage 3		總額 Total	
	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000	Gross carrying amount HK$'000	ECL allowances HK$'000
At 1 January 2020	333,851,300	839,983	12,025,091	1,749,793	2,368,525	1,198,790	348,244,916	3,788,566
Transfer:								
– Transfer to Stage 1	7,861,124	32,347	(7,859,868)	(31,091)	(1,256)	(1,256)	–	–
– Transfer to Stage 2	(13,556,823)	(155,896)	14,129,235	237,231	(572,412)	(81,335)	–	–
– Transfer to Stage 3	(130,433)	(269)	(5,888,687)	(1,528,712)	6,019,120	1,528,981	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(21,872)	–	371,116	–	448,163	–	797,407
Net financial assets originated/ (derecognised or repaid)/ changes in fair value	25,792,747	436,687	(1,910,147)	(196,633)	(700,058)	(362,488)	23,182,542	(122,434)
Changes in risk parameters and model inputs	–	(484,891)	–	(23,964)	–	2,331,144	–	1,822,289
Amounts written-off	–	–	–	–	(3,482,743)	(3,482,743)	(3,482,743)	(3,482,743)
Other movement	–	–	–	–	251,075	61,822	251,075	61,822
At 31 December 2020	353,817,915	646,089	10,495,624	577,740	3,882,251	1,641,078	368,195,790	2,864,907

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

Significant increase in credit risk

An assessment of whether the financial instruments have experienced SICR since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment is rule-based, unbiased and forward-looking, and considers all reasonable and supportable information, including information about past events, current conditions and future economic conditions.

The financial instruments will be considered to have significant increase in credit risk when:

(a) The contractual payments of the instruments are with more than 30 days past due; or

(b) The credit rating of the financial instrument has gone down by 5 notches since initial recognition; or

(c) The financial instruments have been classified as special mention.

Management overlay and judgements

The Group will consider the need to implement and apply management overlay over the ECL modelled outcome to cater for model constraints, data limitation and exceptional events. The management overlay methodologies involve management judgement and the amounts are subjected to regular robust review and governance processes to assess the adequacy and relevancy of such overlay.

As at 31 December 2021, management overlay was applied on top of modelled ECL to cater for uncertainties arising from the government policy risk in PRC commercial real estate sector. In determining this overlay, the Group has identified the vulnerable sector exposures which are not backed by collateral. Additional ECL has been recognised to cater for the potential change in internal rating based on the likelihood of credit quality deterioration of the sector.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for financial assets.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the 'base economic scenario') are provided by the Group's economists and include consideration of a variety of actual and forecast information from internal and external sources. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios including 1 upside and 3 downside forecast scenarios.

In particular, the base scenario represents the most likely scenario of continuing the current economic situation; carrying a weight of 55% (2020: 55%); the upside scenario, namely benign, represents likelihood of improvements to the current economic situation; carrying a weight of 10% (2020: 10%); and the downside scenarios, namely, mild, medium and severe represents the likelihood of economic downturn of different severities, carrying a weight of 10%, 20% and 5% (2020: 10%, 20% and 5%) respectively. The economic forecasts are reviewed regularly to reflect the latest economic conditions. The ECL recognised in the financial statements reflect the probability weighted outcomes of a range of possible scenarios above and management continuously assess the appropriateness of the provision made against the borrowers concerned taking these information into consideration. If any adjustment in provision is deemed necessary, management overlay(s) would be applied to ensure conservativeness.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

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

The Base scenario

The Group's Base Scenario is characterised by a gradual growth around the globe over the forecast period of 2022 – 2026. The global economy is expected to continue with the recovery in these five years, on the back of sustained improvement in economic activities and trade, as well as a steady rise in vaccination rates worldwide that effectively cope with the COVID-19 pandemic.

Mainland China's economy is projected to maintain strength with largely stable GDP growth over the forecast period. Domestic demand will continue to pick up and gather momentum with fiscal and monetary policy support, while external trade will sustain growth thanks to rising global demand. Meanwhile, Mainland China's unemployment rate should remain largely stable.

Hong Kong's economy is expected to suffer a setback in recovery in the near term, as a result of the resurgence of the COVID-19 pandemic in the city. In the longer run, the economy is anticipated to regain momentum and expand at a solid pace when economic activities normalize, supported by further improvement in global trade and a rebound in domestic demand after the pandemic is under control. The unemployment rate in Hong Kong fluctuates with pandemic developments. The labor market may worsen when the pandemic situation deteriorates but should improve rapidly when COVID-19 is effectively dealt with.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

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

The Base scenario *(continued)*

Forecast for 2022

	Hong Kong			Mainland China		
Average 2022 – 2026	**Benign**	**Base**	**Mild/ Medium/ Severe(note)**	**Benign**	**Base**	**Mild/ Medium/ Severe(note)**
GDP growth rate (%)	3.5	3.1	0.0	5.5	5.1	2.2
Inflation (%)	2.3	2.1	0.4	2.4	2.2	0.5
Unemployment (%)	3.1	3.2	4.1	3.6	3.6	4.0
Property price index	451	444	379			
Real exchange rate	126	125	119			
Settlement rate in 6 months (%)	1.0	1.0	0.6			
Settlement rate in 12 months (%)	1.2	1.1	0.8			

Forecast for 2021

	Hong Kong			Mainland China		
Average 2021 – 2025	**Benign**	**Base**	**Mild/ Medium/ Severe(note)**	**Benign**	**Base**	**Mild/ Medium/ Severe(note)**
GDP growth rate (%)	3.2	2.7	-1.8	6.5	6.3	4.0
Inflation (%)	2.5	2.3	0.0	2.1	1.8	-0.3
Unemployment (%)	4.6	4.7	6.2	3.6	3.6	4.2
Property price index	429	422	357			
Real exchange rate	124	123	117			
Settlement rate in 6 months (%)	0.6	0.6	0.5			
Settlement rate in 12 months (%)	0.9	0.9	0.7			

Note: Represent the weighted average of the three scenarios.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

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

The Benign Scenario

The Benign Scenario is a slight deviation from the Base Scenario in the positive direction, with the global economy expanding at a slightly faster-than-expected pace and other key economic indicators displaying slightly better-than-expected improvements.

The Mild Scenario

The Mild Scenario is a slight deviation from the Base Scenario in the negative direction, with the global economy expanding at a slightly slower-than-expected pace and other key economic indicators displaying slightly worse-than-expected improvements.

The Medium Scenario

The Medium Scenario is in between the Base Scenario and the Severe Scenario, with the global GDP growth rate and other key economic indicators standing at the medium points between those of the two scenarios.

The Severe Scenario

Under the Severe scenario, the global economy suffers a significant setback in recovery on the back of the worsening COVID-19 pandemic with vaccines failing to contain new Covid variants, a further delay of border re-opening due to the widespread of Covid variants, an escalation of China-US economic and trade conflicts leading to a sharp economic downturn in the US and China, as well as intensified geopolitical tensions. GDP growth is likely to drop substantially or turn negative for most of the advanced economies, while economic growth in Mainland China and Hong Kong will experience a marked deceleration. Consequently, financial and commodity markets experience sharp corrections with heightened volatilities, while unemployment rates across countries increase considerably.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

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

Sensitivity analyses of expected credit loss calculation

As the probability assigned to each scenario and the correspondence economic factor forecast is subject to uncertainties, the Group has conducted sensitivity analyses for the impacts of an expected credit loss if the probability is slightly different from the expectation:

(i) Comparing the difference of expected credit loss under the Base Scenario against the probability weighted outcomes of 5 scenarios at the year ended of 2021, the expected credit loss under the base scenario would be approximately 25% (HK$273 million) lower than the weighted outcomes of the 5 economic scenarios currently reported in the consolidated financial statements.

(ii) By assuming 10% scenario weight shift from Base scenario to upside or to the most severe downside scenario at the year end of 2021, there would be a decrease in credit loss by approximately HK$35 million or an increase in credit loss by approximately HK$218 million, respectively.

Definition of default and credit-impaired assets

The Group defines a financial asset as in default when contractual repayment of principal or payment of interest is past due more than 90 days or fulfill certain assessment criteria as defined in the Asset Quality Classification Policy.

Moreover, in assessing whether a borrower is in default, the Group considers various indicators comprising: (i) qualitative – such as in breach of financial covenant(s), deceased, insolvent or in long-term forbearance; (ii) quantitative – such as overdue status and non-payment on another obligation of the same issuer to the Group. These criteria have been applied to all financial assets held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group’s expected loss calculations.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Expected credit losses measurement (continued)

Definition of default and credit-impaired assets (continued)

A financial asset is no longer considered in default when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectible in accordance with the original or revised contractual terms of the financial assets with all criteria for the impaired classification having been remedied.

Write-off

The Group writes off a financial asset in whole or in part, when it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include:

(i) ceasing enforcement activity;

(ii) where the Group's recovery method is enforcing collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full; and

(iii) debtors in state of insolvency.

The ECL allowances changed from HKD2,864.9 million as of 31 December 2020 to HKD2,445.4 million as of 31 December 2021. It was mainly as a result of the Group writing off certain loans that have no reasonable expectation of full recovery. The Group will continue to objectively and timely assess the ECL allowances according to HKFRS 9 to ensure its sufficiency.

(vii) Credit quality of financial assets

The Group manages and monitors its risks, and has an Asset Quality Classification Policy and Impairment Assessment Policy in place to govern this aspect. The Group has a professional team dedicated to handling recovery of non-performing loans, which include loan restructuring, taking legal action, repossession and disposal of collateral, etc.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vii) Credit quality of financial assets (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

	2021						
	Gross carrying/notional amount						
	Strong	Satisfactory	Higher risk	Credit impaired	Total	ECL allowances	Net carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balances with banks and central banks at amortised cost	28,596,881	–	–	–	28,596,881	(4,667)	28,592,214
– Stage 1	28,596,881	–	–	–	28,596,881	(4,667)	28,592,214
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks at amortised cost	20,133,368	931,158	–	–	21,064,526	(5,886)	21,058,640
– Stage 1	20,133,368	931,158	–	–	21,064,526	(5,886)	21,058,640
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	158,939,851	78,986,110	10,742,987	2,599,090	251,268,038	(2,218,167)	249,049,871
– Stage 1	158,361,710	76,446,654	3,983,224	–	238,791,588	(1,143,819)	237,647,769
– Stage 2	578,141	2,539,456	6,759,763	–	9,877,360	(174,967)	9,702,393
– Stage 3	–	–	–	2,599,090	2,599,090	(899,381)	1,699,709
Amortised cost investments	53,378	–	–	–	53,378	(3)	53,375
– Stage 1	53,378	–	–	–	53,378	(3)	53,375
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts (Note i)	76,460,490	40,324,381	438,805	–	117,223,676	(142,460)	117,081,216
– Stage 1	76,460,490	40,324,381	414,372	–	117,199,243	(141,026)	117,058,217
– Stage 2	–	–	24,433	–	24,433	(1,434)	22,999
– Stage 3	–	–	–	–	–	–	–
Total	284,183,968	120,241,649	11,181,792	2,599,090	418,206,499	(2,371,183)	415,835,316
Financial assets at fair value through other comprehensive income							
– Debt securities (Note ii)	101,789,179	2,045,153	–	13,247	103,847,579	(218,106)	
– Stage 1	101,789,179	2,045,153	–	–	103,834,332	(26,155)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	13,247	13,247	(191,951)	
Total	101,789,179	2,045,153	–	13,247	103,847,579	(218,106)	

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vii) Credit quality of financial assets (continued)

	2020						
	Gross carrying/notional amount						
	Strong 港幣千元 HK$'000	Satisfactory 港幣千元 HK$'000	Higher risk 港幣千元 HK$'000	Credit impaired 港幣千元 HK$'000	Total 港幣千元 HK$'000	ECL allowances 港幣千元 HK$'000	Net carrying amount 港幣千元 HK$'000
Balances with banks and central banks at amortised cost	32,574,369	–	–	–	32,574,369	(2,651)	32,571,718
– Stage 1	32,574,369	–	–	–	32,574,369	(2,651)	32,571,718
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks at amortised cost	28,689,080	291,719	–	–	28,980,799	(10,969)	28,969,830
– Stage 1	28,689,080	291,719	–	–	28,980,799	(10,969)	28,969,830
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers and other accounts at amortised cost	140,150,613	74,635,210	10,477,689	3,882,251	229,145,763	(2,692,314)	226,453,449
– Stage 1	139,467,671	73,922,436	1,377,781	–	214,767,888	(589,755)	214,178,133
– Stage 2	682,942	712,774	9,099,908	–	10,495,624	(577,740)	9,917,884
– Stage 3	–	–	–	3,882,251	3,882,251	(1,524,819)	2,357,432
Amortised cost investments	48,494	–	–	–	48,494	(1)	48,493
– Stage 1	48,494	–	–	–	48,494	(1)	48,493
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts (Note i)	102,279,249	1,400	–	–	102,280,649	(126,654)	102,153,995
– Stage 1	102,259,344	1,400	–	–	102,260,744	(125,762)	102,134,982
– Stage 2	19,905	–	–	–	19,905	(892)	19,013
– Stage 3	–	–	–	–	–	–	–
Total	303,741,805	74,928,329	10,477,689	3,882,251	393,030,074	(2,832,589)	390,197,485
Financial assets at fair value through other comprehensive income							
– Debt securities (Note ii)	82,647,079	2,193,721	–	–	84,840,800	(158,972)	
– Stage 1	82,647,079	2,193,721	–	–	84,840,800	(42,713)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	–	–	(116,259)	
Total	82,647,079	2,193,721	–	–	84,840,800	(158,972)	

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vii) Credit quality of financial assets (continued)

Note:

(i) The notional amount of commitments and financial guarantee contracts refer to those commitments and financial guarantees which subject to impairment requirements under HKFRS 9. Therefore, figures disclosed in the above do not agree with the figures disclosed in note 39(a) to the consolidated financial statements.

(ii) Debt securities measured at FVOCI are held at fair value. The expected credit losses allowances in respect of debt securities measured at FVOCI are held within reserves.

(iii) Classification of credit quality

The Group adopts the following internal risk ratings to determine the credit quality for financial assets.

Credit quality description	**Internal ratings**
Strong	G01-G12
Satisfactory	G13-G16
Higher risk	G17-G21
Credit impaired	G22-G24

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI

For the application of credit rating to debt securities, primarily the issue specific rating would be taken as reference for credit risk rating assignment. Where this is not available, the issuer rating would be adopted. When the issuer rating is not available, the rating of the guarantor of that debt securities (if applicable) would be adopted, otherwise it would be treated as unrated. The following table presents an analysis of the credit quality of investments in debt securities at the end of the reporting period.

37 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI (continued)

	2021			
	Debt securities measured at FVPL HK$'000	**Debt securities measured at FVOCI HK$'000**	**Debt securities measured at amortised cost investments HK$'000**	**Total HK$'000**
Aaa	**352,867**	**10,054,893**	**–**	**10,407,760**
Aa3 to Aa1	**1,741,481**	**33,675,076**	**53,375**	**35,469,932**
A3 to A1	**630,214**	**52,966,046**	**–**	**53,596,260**
Lower than A3	**314,545**	**6,989,889**	**–**	**7,304,434**
	3,039,107	**103,685,904**	**53,375**	**106,778,386**
Unrated	**67,168**	**161,675**	**–**	**228,843**
Total	**3,106,275**	**103,847,579**	**53,375**	**107,007,229**

	2020			
	Debt securities measured at FVPL HK$'000	Debt securities measured at FVOCI HK$'000	Debt securities measured at amortised cost investments HK$'000	Total HK$'000
Aaa	–	4,615,014	–	4,615,014
Aa3 to Aa1	558,314	22,225,056	48,493	22,831,863
A3 to A1	1,258,890	49,291,171	–	50,550,061
Lower than A3	627,756	8,003,915	–	8,631,671
	2,444,960	84,135,156	48,493	86,628,609
Unrated	204,116	705,644	–	909,760
Total	2,649,076	84,840,800	48,493	87,538,369

37 Financial risk management *(continued)*

(b) Market risk management

Market risk is the risk of loss caused by an adverse change in valuation associated with holding either long or short market positions. The risk arises as a result of market making, underwriting, principal position taking and asset/liability management in interest rate, foreign exchange, equity, credit and commodity markets and their associated derivatives instruments. The Group manages its market risk exposures mainly through its trading and treasury business. The trading business is to facilitate customer activities, but as a result, takes on principal positions. The treasury business performs asset/liability management function including liquidity risk management, with securities positions intended for liquidity management and investment purposes under non-trading portfolio (debt securities measured at fair value through other comprehensive income).

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolios and, by doing so, optimise financial performance. The business is responsible for managing market risks to meet corporate performance objectives within the market risk limit parameters. The Risk Management Group ("RMG") is responsible to independently monitor and report all market risks.

Market risk framework

The Board of the Group allocates capital or risk appetite through the limit process. The Board delegates Credit & Risk Management Committee ("CRMC") to establish limits for the different businesses. CRMC further delegates market risk limit establishment to the Market Risk Committee ("MRC") and then to RMG. RMG is responsible for designing and drafting the market risk limits and framework and reviewing and updating the limits on a regular basis. The market risk limits are to be approved by MRC and endorsed by CRMC. In addition, the Board also establishes a set of risk indicators under the risk appetite statement ("RAS") in measuring different types of risks including market risk.

RMG is an independent function reporting to the Chief Risk Officer ("CRO"). RMG uses both quantitative and qualitative measures in analysing market risk. The analysis includes, but not limited to, Value-at-Risk ("VaR"), stress testing, risk sensitivities, market events, product liquidity and volatility, underlying quality, hedging strategy, performance including profit and loss, accuracy of valuations and balance sheet and capital consumptions. The results are regularly reported to senior management and CRO and to MRC and CRMC.

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Methodology and characteristics of market risk model

Value-at-risk ("VaR")

VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

The VaR model used by the Group is based on the historical simulation technique. The technique predicts the value at risk by simulating or constructing position returns over time arise from the historical changes in rates and prices in the interest rate, foreign exchange, equity, credit and commodity markets.

37 Financial risk management *(continued)*

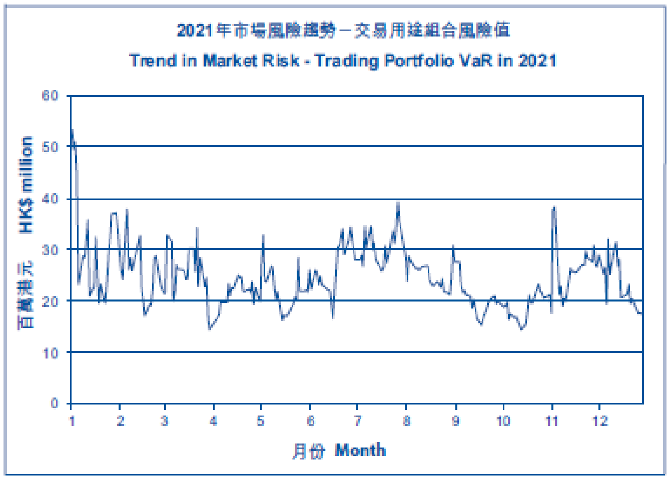
(b) Market risk management *(continued)*

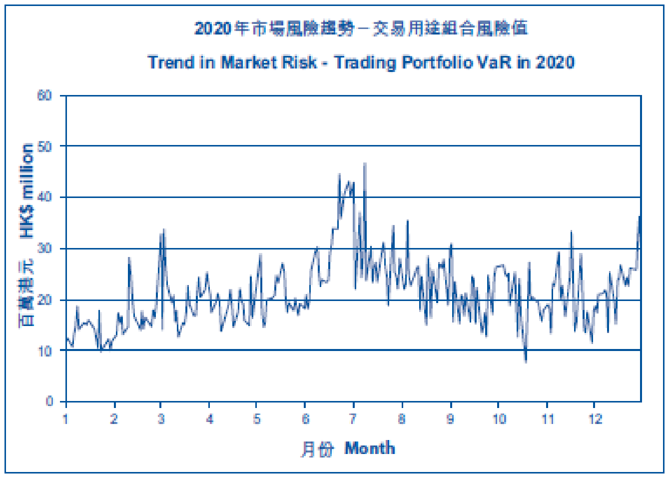
Methodology and characteristics of market risk model (continued)

Value-at-risk (“VaR”) *(continued)*

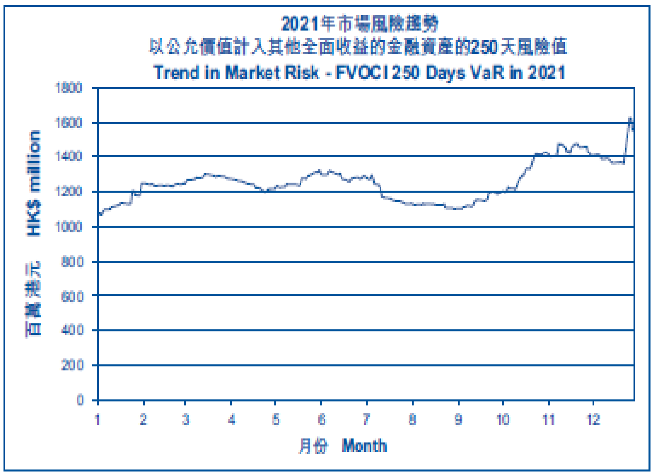
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

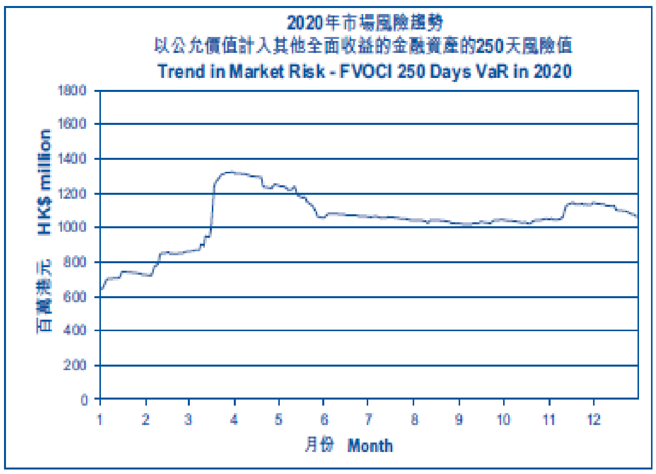
– For the trading positions, the VaR is calculated for one-day holding period.





– For the FVOCI debt securities and related positions, VaR is calculated for 250-day holding period.





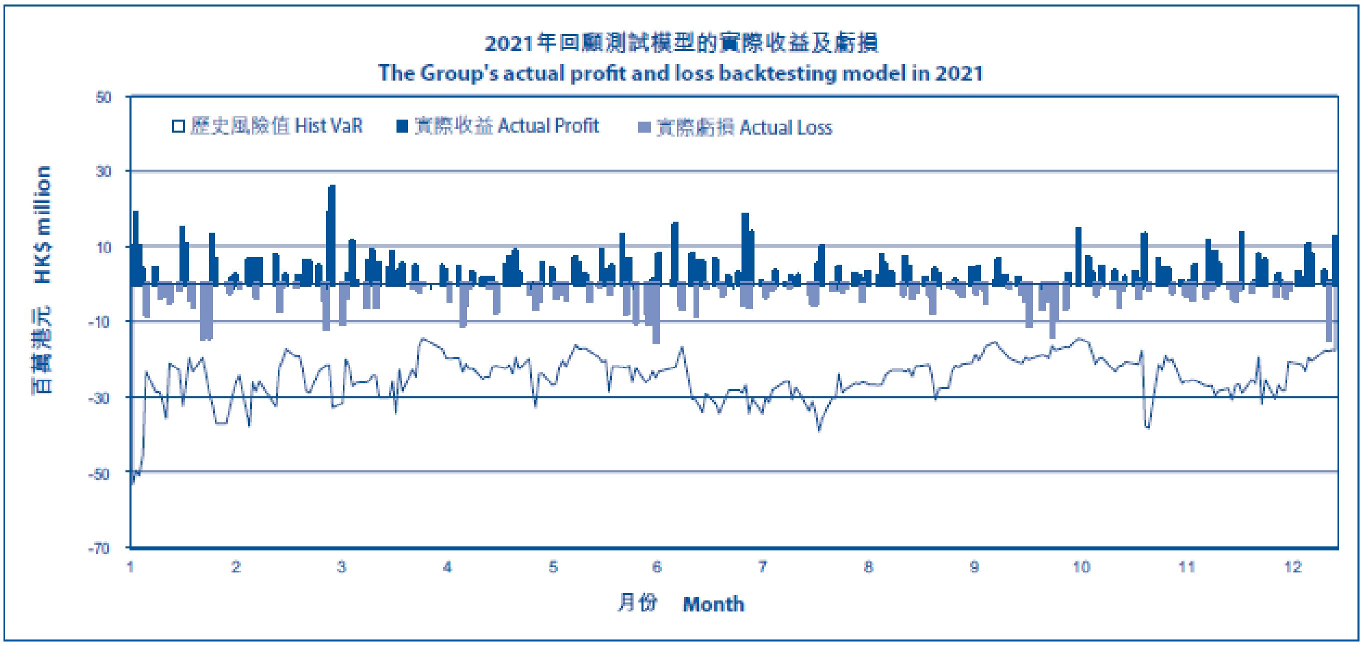
37 Financial risk management *(continued)*

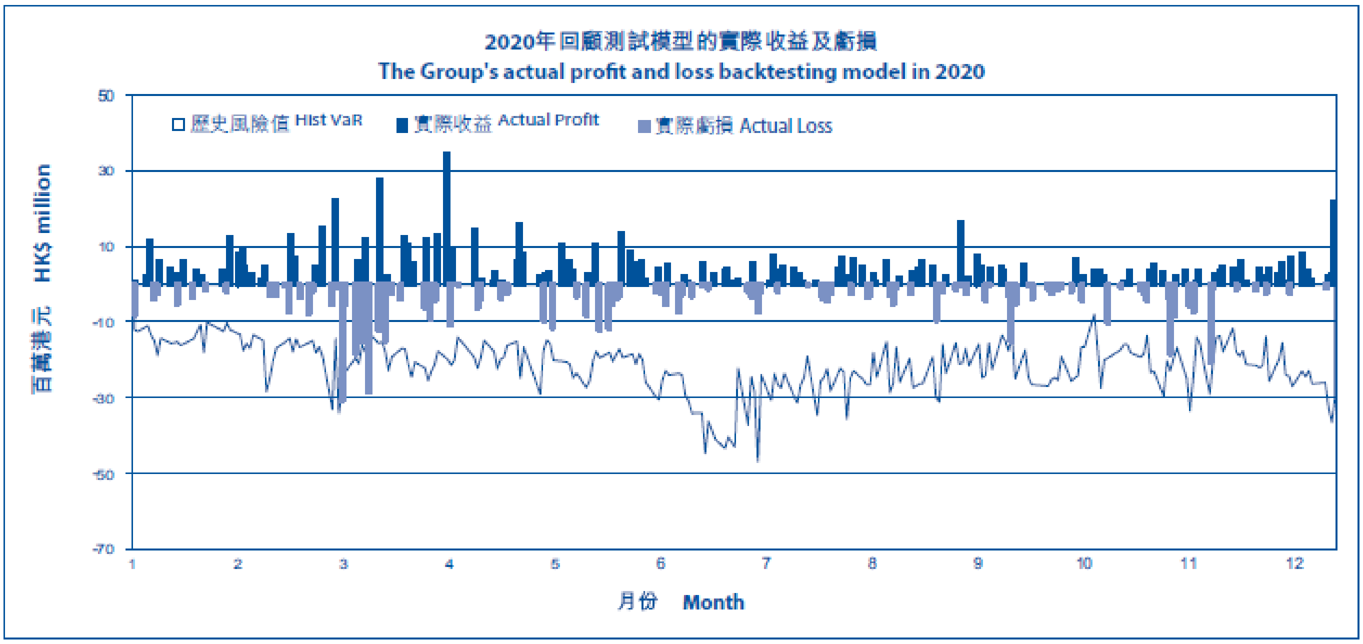
(b) Market risk management *(continued)*

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") *(continued)*

– The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. For the period from 1 January 2021 to 31 December 2021, there were no exceptions in the back-testing results (for the period from 1 January 2020 to 31 December 2020, there were 3 exceptions), which corresponds to the green zone specified by the HKMA and the international Basel principles.





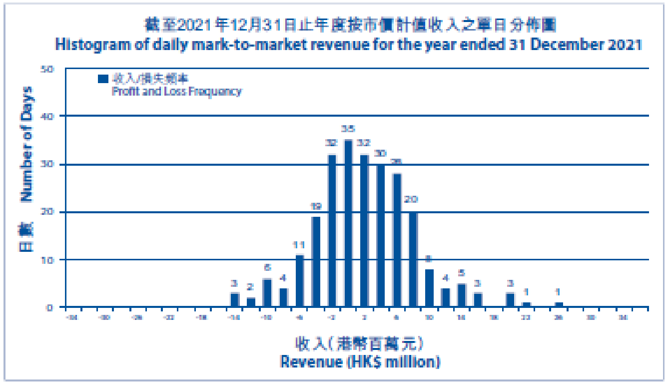
37 Financial risk management *(continued)*

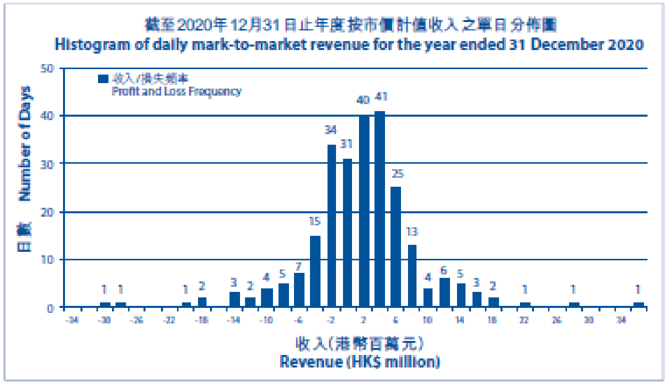
(b) Market risk management *(continued)*

Methodology and characteristics of market risk model (continued)

Value-at-risk (“VaR”) *(continued)*

For the year ended 31 December 2021, the average daily mark-to-market revenue from the Group’s trading portfolio was a gain of HK$1,016,000 (31 December 2020: a gain of HK$638,000). The standard deviation of the daily revenue was HK$6,309,000 (31 December 2020: HK$7,165,000). The graphs below show the histograms of the Group’s daily mark-to-market revenue for the year ended 31 December 2021 and 2020, respectively.





37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") *(continued)*

The tables below decomposes VaR by risk factors for the trading positions and the debt securities measured at FVOCI related positions.

1-day VaR for the trading positions

	2021				2020			
	Approximate				Approximate			
	Maximum	**Minimum**	**Mean**	**At 31 December**	Maximum	Minimum	Mean	At 31 December
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**24,259**	**389**	**7,616**	**4,648**	31,032	1,678	9,807	5,136
Interest rate risk and credit spread risk	**42,114**	**13,790**	**23,546**	**16,684**	29,563	8,513	18,165	27,398
Total VaR	**53,296**	**14,460**	**25,029**	**17,623**	46,682	7,744	21,440	29,447

250-day VaR for the debt securities measured at FVOCI related position

	2021				2020			
	Approximate				Approximate			
	Maximum	**Minimum**	**Mean**	**At 31 December**	Maximum	Minimum	Mean	At 31 December
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**850,233**	**623,917**	**773,273**	**623,917**	1,188,548	752,505	1,076,732	814,616
Credit spread risk	**1,624,035**	**1,247,136**	**1,396,850**	**1,588,459**	1,381,528	780,097	1,161,481	1,259,418
Total 250-day VaR	**1,624,750**	**1,063,496**	**1,254,916**	**1,544,104**	1,324,028	641,417	1,042,057	1,064,716

Stress testing

Stress testing is implemented as a compliment of the VaR model in order to capture remote, but plausible events. The Group uses both sensitivity-based and historical-based scenarios for market risk stress testing. The results are reported to senior management, MRC and CRMC.

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the MRC. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the year ended 31 December 2021, the Group's average daily trading profit and loss from foreign exchange positions was a gain of HK$488,000 (2020: a loss of HK$1,796,000) with a standard deviation of HK$8,087,000 (2020: HK$13,750,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	2021				2020			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**176,637,317**	**20,952,451**	**24,632,189**	**222,221,957**	164,369,879	22,409,162	26,200,137	212,979,178
Spot liabilities	**(130,209,088)**	**(29,602,304)**	**(13,310,556)**	**(173,121,948)**	(120,232,212)	(20,069,718)	(14,058,439)	(154,360,369)
Forward purchases	**483,048,048**	**321,823,265**	**87,983,255**	**892,854,568**	362,454,488	194,205,562	71,795,914	628,455,964
Forward sales	**(529,582,904)**	**(310,297,654)**	**(99,330,676)**	**(939,211,234)**	(402,141,228)	(199,504,087)	(83,411,374)	(685,056,689)
Net options position	**699,927**	**(706,129)**	**56,740**	**50,538**	(3,634,671)	4,018,861	(359,109)	25,081
Net long position	**593,300**	**2,169,629**	**30,952**	**2,793,881**	816,256	1,059,780	167,129	2,043,165
Net structural position	**–**	**734,574**	**48,541**	**783,115**	–	714,898	48,542	763,440

The net option position is calculated using the Model User Approach, which has been approved by the HKMA.

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Currency risk (continued)

Sensitivity analysis on foreign exchange exposures

(i) At 31 December 2021, if the HKD had weakened by 10% against other currencies (other than the USD) with all other variables held constant, the Group's profit after tax for the year would have been higher by HK$183,749,000 (2020: higher by HK$102,447,000), mainly as a result of foreign exchange gains on the translation of non-HKD denominated financial assets compensated by foreign exchange losses on the translation of non-HKD denominated financial liabilities.

Conversely, if the HKD had strengthened by 10% against other currencies (other than the USD) with all other variables held constant, the Group's profit after tax for the year would have been lower by HK$183,749,000 (2020: lower by HK$102,447,000).

(ii) The Group is exposed to currency risks arising from financial instruments that are denominated in USD, excluding structural foreign exchange positions of RMB600,000,000 and MOP 50,000,000. As the USD is pegged to the HKD, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

Interest rate risk

The Group's interest rate risk arise from its banking and trading book. For the banking book, ALCO and RMG are responsible in overseeing the interest rate exposure arised from its assets and liabilities management. The function of central treasury units is responsible in managing the interest rate risk using different financial products including interest rate derivatives, under which hedge accounting treatment is adopted. The interest rate risk includes repricing risks, basis risks, yield curve risks and embedded option risks, and are governed by the Interest Rate Risk Management Policy for the Banking Book.

For the trading book, MRC and RMG are responsible in overseeing the interest rate exposure from its trading portfolio. Global Markets is responsible in managing the interest rate risk using different financial products including derivatives, under which mark-to-market treatment is adopted. The interest rate risk includes basis risks, yield curve risks and embedded option risks, and are governed by the Market Risk Policy.

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk (continued)

For the year ended 31 December 2021, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a gain of HK$528,000 (31 December 2020: a gain of HK$2,443,000), with a standard deviation of HK$7,945,000 (31 December 2020: HK$14,618,000).

Sensitivity analysis on interest rate exposures

The Group measures the interest rate risk of the banking book by conducting a sensitivity analysis of the interest rate exposure on a quarterly basis. The sensitivity analysis on the potential impacts of movements in interest rates on the Group's earnings and economic value are assessed based on the HKMA SPM IR-1 defined multi-sets of new interest rate scenario and interest rate volatility scenario requirements and the most stressed scenarios are selected below. Certain comparatives have been revised in order to align with the latest books and records and banking returns submitted to HKMA.

	2021			2020		
Equivalent in HK$'000	**HKD**	**RMB**	**USD**	HKD	RMB	USD
Impact on earnings over the next 12 months	**(1,421,459)**	**(203,714)**	**(185,206)**	(1,262,625)	(266,451)	(52,891)
Impact on economic value	**(2,184,056)**	**(297,126)**	**(237,894)**	(1,822,627)	(213,554)	(202,316)

This sensitivity analysis, which is based on an interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) The analysis is based on the requirements under HKMA SPM IR-1 defined multi-sets of interest rate scenario and interest rate volatility scenario.

(ii) There are no other changes to the portfolio.

Actual changes in the Group's net interest income and the economic value resulting from the change in interest rates may differ from the results of this sensitivity analysis.

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk (continued)

The following tables summarise the Group's exposures to interest rate risks for the interest bearing assets and liabilities at the end of the reporting period as referred to earlier of contractual repricing or maturity dates.

	2021					
	Total HK$'000	3 months or less (including overdue) HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000
Assets						
Cash and balances with banks and central banks	28,828,450	28,592,214	–	–	–	236,236
Placements with and advances to banks	21,058,640	21,058,640	–	–	–	–
Financial assets at fair value through profit or loss	3,106,275	1,152,017	105,081	366,093	1,483,084	–
Derivative financial instruments	8,888,842	–	–	–	–	8,888,842
Loans and advances to customers and other accounts	249,416,421	225,339,974	13,593,253	1,396,618	44,729	9,041,847
Financial assets at fair value through other comprehensive income	103,926,448	47,820,027	24,964,533	30,835,585	223,434	82,869
Amortised cost investments	53,375	53,375	–	–	–	–
Non-interest bearing assets	2,193,584	–	–	–	–	2,193,584
Total assets	417,472,035	324,016,247	38,662,867	32,598,296	1,751,247	20,443,378
Liabilities						
Deposits and balances of banks and other financial institutions	13,584,427	11,347,838	1,388,042	–	–	848,547
Deposits from customers	327,768,033	251,833,552	54,074,315	2,547,253	–	19,312,913
Financial liabilities at fair value through profit or loss	768,006	6,162	20,211	212,162	529,471	–
Derivative financial instruments	8,766,335	–	–	–	–	8,766,335
Certificates of deposit issued	1,481,389	389,839	–	1,091,550	–	–
Loan capital	3,883,863	–	–	3,883,863	–	–
Other liabilities	10,718,536	2,476,780	213,046	286,625	18,034	7,724,051
Non-interest bearing liabilities	714,870	–	–	–	–	714,870
Total liabilities	367,685,459	266,054,171	55,695,614	8,021,453	547,505	37,366,716
Interest rate sensitivity gap		57,962,076	(17,032,747)	24,576,843	1,203,742	

37 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk (continued)

	2020					
	Total HK$'000	3 months or less (including overdue) HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000
Assets						
Cash and balances with banks and central banks	32,783,916	32,571,718	–	–	–	212,198
Placements with and advances to banks	28,969,830	28,969,830	–	–	–	–
Financial assets at fair value through profit or loss	2,649,076	13,145	312,044	877,964	998,551	447,372
Derivative financial instruments	14,378,601	–	–	–	–	14,378,601
Loans and advances to customers and other accounts	226,789,958	206,014,661	9,586,948	509,811	18,099	10,660,439
Financial assets at fair value through other comprehensive income	84,950,868	37,716,914	17,023,195	29,843,774	252,917	114,068
Amortised cost investments	48,493	48,493	–	–	–	–
Non-interest bearing assets	2,327,946	–	–	–	–	2,327,946
Total assets	392,898,688	305,334,761	26,922,187	31,231,549	1,269,567	28,140,624
Liabilities						
Deposits and balances of banks and other financial institutions	5,326,408	4,382,785	705,323	238,300	–	–
Deposits from customers	309,877,016	267,897,342	26,371,061	797,045	–	14,811,568
Financial liabilities at fair value through profit or loss	290,185	–	–	111,597	178,588	–
Derivative financial instruments	15,160,283	–	–	–	–	15,160,283
Loan capital	3,855,374	–	–	3,855,374	–	–
Other liabilities	10,078,174	2,281,192	–	–	–	7,796,982
Non-interest bearing liabilities	743,454	–	–	–	–	743,454
Total liabilities	345,330,894	274,561,319	27,076,384	5,002,316	178,588	38,512,287
Interest rate sensitivity gap		30,773,442	(154,197)	26,229,233	1,090,979	

37 Financial risk management *(continued)*

(c) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than usual or there could even be an extreme lack of buyers. As a result, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, concurred by the Asset and Liability Committee ("ALCO") and the CRMC, and approved by the Board of Directors.

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The ALCO is established by the Chief Executive Officer and ratified by the CRMC as the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the Group's liquidity risk profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of risk indicators for liquidity risk. Daily liquidity stress testing, which includes market general, bank-specific and combined (market general and bank-specific) stress scenarios, is conducted by the Risk Management Group, and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan is established which sets out the strategies for addressing liquidity stress situations. The plan contains a set of policies, procedures and action plans, with clearly established lines of responsibility, as well as invocation and escalation procedures. This plan is reviewed and approved by the ALCO on a regular basis.

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

- Daily liquidity management is managed by the Central Treasury Unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio. Both quantitative and qualitative measures are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements, taking into account their different liquidity risk characteristics. The liquidity situation of overseas branches and subsidiaries falls under the overall supervision of the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended from the head office. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity requirements. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows in normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;

– Factoring potential drawdown on irrevocable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk;

– Monitoring the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio against internal and/or regulatory requirements;

– Ensuring a sound and diversified range of funding sources, through monitoring the structure and the stability of the deposit portfolio;

– Projecting the statutory liquidity ratios regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratios are within statutory requirements and internal triggers;

– Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix;

– Conducting liquidity risk assessment before launching a new product;

– Maintaining High Quality Liquid Assets (“HQLA”) comprising cash and investment grade securities as a cushion against unexpected funding needs. The amount of HQLA that the Group maintains is determined with reference to the statutory requirement and the results of the liquidity stress tests;

– Maintaining access to the interbank money market;

– Maintaining a funding programme to tap debt funding on a regular basis;

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

- Monitoring the Group's collateral requirement. Periodically assess and review the additional collateral required under derivative contracts and credit downgrade events. Based on the positions at 31 December 2021, in the event of a 2-notch downgrade, the impact on the Group's additional collateral requirement is minimal; and

- Maintaining a Contingency Funding Plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning indicators (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the retail and corporate customer deposits. At the same time, it also participates in the wholesale funding market through the issuance of certificates of deposit ("CDs") to secure another source of term funding and to enable diversification of funding sources. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

Under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements.

An appropriate level and currency mix of HQLA has been maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events under the HKMA's regulatory framework. Besides, the Group also monitors and reports the LCR for each individual significant currency to ALCO regularly to control the currency mismatch in the LCR. The changes in average LCR in the second half of 2021 was mainly driven by the changes in the cash outflow pressure and the size of HQLA holdings.

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

	Weighted amount (average value)				
	For quarter ended 31 December 2021	For quarter ended 30 September 2021	For quarter ended 30 June 2021	For quarter ended 31 March 2021	For quarter ended 31 December 2020
Average LCR	239%	280%	249%	225%	217%

The Group always maintains sufficient cash and liquid positions as well as a pool of HQLA as a liquidity cushion that can be liquidated in stress scenarios. The majority of HQLA included in the LCR is Level 1 assets as defined in Banking (Liquidity) Rules. The below table shows the composition of the Group's HQLA in the LCR framework:

	Weighted amount (average value)				
	For quarter ended 31 December 2021 HK$'000	For quarter ended 30 September 2021 HK$'000	For quarter ended 30 June 2021 HK$'000	For quarter ended 31 March 2021 HK$'000	For quarter ended 31 December 2020 HK$'000
Level 1 assets	53,501,344	54,017,812	51,238,524	41,380,964	42,607,213
Level 2 assets	13,977,535	12,626,988	13,300,794	11,251,335	10,836,099
Total	67,478,879	66,644,800	64,539,318	52,632,299	53,443,312

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The increase in the NSFR in the second half of 2021 was mainly driven by the increases in the customer deposits, partly offset by the increases in the customer loans. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 31 December 2021	**Quarter ended 30 September 2021**	**Quarter ended 30 June 2021**	**Quarter ended 31 March 2021**	**Quarter ended 31 December 2020**
NSFR	**125%**	**125%**	**122%**	**128%**	**128%**

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at www.cncbinternational.com.

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity

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

As the trading portfolios may be sold before maturity, or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent the expected dates of future cash flows.

	2021							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated(Note)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Cash and balances with banks and central banks	28,828,450	28,230,917	–	–	–	–	–	597,533
Placements with and advances to banks	21,058,640	–	19,846,311	1,212,329	–	–	–	–
Financial assets at fair value through profit or loss	3,106,275	–	1,100,544	51,473	104,929	340,160	1,509,169	–
Derivative financial instruments	8,888,842	–	1,366,350	1,205,499	2,364,082	3,334,211	618,700	–
Loans and advances to customers and other accounts	249,416,421	1,447,871	22,476,793	18,772,956	77,665,066	91,467,331	30,523,052	7,063,352
Financial assets at fair value through other comprehensive income	103,926,448	–	17,797,235	18,734,389	30,742,205	36,346,316	227,434	78,869
Amortised cost investments	53,375	–	4,854	48,521	–	–	–	–
Property and equipment	925,816	–	–	–	–	–	–	925,816
Right-of-use assets	559,103	–	–	–	–	–	–	559,103
Intangible assets	539,779	–	–	–	–	–	–	539,779
Deferred tax assets	168,886	–	–	–	–	–	–	168,886
Total assets	417,472,035	29,678,788	62,592,087	40,025,167	110,876,282	131,488,018	32,878,355	9,933,338
Liabilities								
Deposits and balances of banks and other financial institutions	13,584,427	911,672	7,243,647	4,041,133	1,387,975	–	–	–
Deposits from customers	327,768,033	127,211,837	58,171,911	85,762,717	54,074,315	2,547,253	–	–
Financial liabilities at fair value through profit or loss	768,006	–	6,162	–	20,211	212,162	529,471	–
Derivative financial instruments	8,766,335	–	1,570,410	1,225,317	2,196,188	3,044,581	729,839	–
Certificates of deposit issued	1,481,389	–	389,839	–	1,091,550	–	–	–
Current taxation	120,708	–	–	–	120,708	–	–	–
Other liabilities	10,718,536	402,965	3,627,835	2,533,088	994,564	801,218	–	2,358,866
Lease liabilities	592,621	–	25,171	49,745	213,046	286,625	18,034	–
Loan capital	3,883,863	–	–	–	–	3,883,863	–	–
Deferred tax liabilities	1,541	–	–	–	–	–	–	1,541
Total liabilities	367,685,459	128,526,474	71,034,975	93,612,000	60,098,557	10,775,702	1,277,344	2,360,407
Asset-liability gap		(98,847,686)	(8,442,888)	(53,586,833)	50,777,725	120,712,316	31,601,011	

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	2021							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Of which:								
Certificates of deposit held								
– included in financial assets at fair value through other comprehensive income	4,490,521	–	202,641	1,702,641	2,168,781	416,458	–	–
Debt securities held								
– included in financial assets at fair value through profit or loss	2,006,507	–	776	51,473	104,929	340,160	1,509,169	–
– included in financial assets at fair value through other comprehensive income	60,169,857	–	1,505,914	2,892,616	19,614,034	35,929,859	227,434	–
	62,176,364	–	1,506,690	2,944,089	19,718,963	36,270,019	1,736,603	–

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	2020							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated(Note) HK$'000
Assets								
Cash and balances with banks and central banks	32,783,916	32,178,918	–	–	–	–	–	604,998
Placements with and advances to banks	28,969,830	–	28,466,136	503,694	–	–	–	–
Financial assets at fair value through profit or loss	2,649,076	–	13,145	20,290	392,042	1,093,636	1,129,963	–
Derivative financial instruments	14,378,601	–	3,018,141	2,772,946	4,525,456	3,338,373	723,685	–
Loans and advances to customers and other accounts	226,789,958	1,171,785	24,798,400	17,970,865	70,376,044	77,763,961	25,876,401	8,832,502
Financial assets at fair value through other comprehensive income	84,950,868	–	7,858,746	16,214,941	22,557,650	37,952,546	256,917	110,068
Amortised cost investments	48,493	–	–	48,493	–	–	–	–
Tax recoverable	55,449	–	–	–	55,449	–	–	–
Property and equipment	766,636	–	–	–	–	–	–	766,636
Right-of-use assets	696,653	–	–	–	–	–	–	696,653
Intangible assets	635,101	–	–	–	–	–	–	635,101
Deferred tax assets	174,107	–	–	–	–	–	–	174,107
Total assets	392,898,688	33,350,703	64,154,568	37,531,229	97,906,641	120,148,516	27,986,966	11,820,065
Liabilities								
Deposits and balances of banks and other financial institutions	5,326,408	847,661	1,491,891	2,043,233	705,324	238,299	–	–
Deposits from customers	309,877,016	100,613,550	78,002,580	103,879,111	26,577,924	803,851	–	–
Financial liabilities at fair value through profit or loss	290,185	–	–	–	–	111,119	179,066	–
Derivative financial instruments	15,160,283	–	3,712,221	2,911,671	4,618,205	3,016,940	901,246	–
Current taxation	19,656	–	–	–	19,656	–	–	–
Other liabilities	10,078,174	406,513	1,976,112	2,315,199	240,554	–	–	5,139,796
Lease liabilities	722,894	–	21,290	44,872	202,223	438,188	16,321	–
Loan capital	3,855,374	–	–	–	–	3,855,374	–	–
Deferred tax liabilities	904	–	–	–	–	–	–	904
Total liabilities	345,330,894	101,867,724	85,204,094	111,194,086	32,363,886	8,463,771	1,096,633	5,140,700
Asset-liability gap		(68,517,021)	(21,049,526)	(73,662,857)	65,542,755	111,684,745	26,890,333	

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	2020							
	Total 港幣千元 HK$'000	Repayable on demand 港幣千元 HK$'000	Within 1 month 港幣千元 HK$'000	3 months or less but over 1 month 港幣千元 HK$'000	1 year or less but over 3 months 港幣千元 HK$'000	5 years or less but over 1 year 港幣千元 HK$'000	Over 5 years 港幣千元 HK$'000	Undated 港幣千元 HK$'000
Of which:								
Certificates of deposit held								
– included in financial assets at fair value through other comprehensive income	5,179,894	–	248,080	1,555,254	3,062,850	313,710	–	–
Debt securities held								
– included in financial assets at fair value through profit or loss	2,351,288	–	13,144	20,290	94,255	1,093,636	1,129,963	–
– included in financial assets at fair value through other comprehensive income	56,157,194	–	1,483,111	2,390,078	14,388,252	37,638,836	256,917	–
	58,508,482	–	1,496,255	2,410,368	14,482,507	38,732,472	1,386,880	–

"Undated" assets included in "loans and advances to customers and other accounts" were overdue and credit-impaired loans.

37 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(ii) Analysis of the residual contractual maturities of financial liabilities

The following maturity profile shows the undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. The contractual undiscounted cashflows for derivative financial instruments only included interest rates derivatives with interest payments computed using contractual rates.

	2021						
	Gross cash flows HK$'000	**Repayable on demand HK$'000**	**Within 1 month HK$'000**	**3 months or less but over 1 month HK$'000**	**1 year or less but over 3 months HK$'000**	**5 years or less but over 1 year HK$'000**	**Over 5 years HK$'000**
Deposits and balances of banks and other financial institutions	**13,643,083**	**911,672**	**7,260,531**	**4,069,804**	**1,401,076**	**–**	**–**
Deposits from customers	**328,576,670**	**127,211,841**	**58,281,571**	**85,947,622**	**54,447,041**	**2,688,595**	**–**
Financial liabilities at fair value through profit or loss	**936,343**	**–**	**8,206**	**6,879**	**37,906**	**286,069**	**597,283**
Derivative financial instruments	**7,236,502**	**–**	**188,866**	**443,237**	**1,810,721**	**4,085,941**	**707,737**
Certificates of deposit issued	**1,485,713**	**–**	**390,128**	**–**	**1,095,585**	**–**	**–**
Loan capital	**4,349,143**	**–**	**–**	**90,150**	**90,150**	**4,168,843**	**–**
	356,227,454	**128,123,513**	**66,129,302**	**90,557,692**	**58,882,479**	**11,229,448**	**1,305,020**

	2020						
	Gross cash flows HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	5年以上 Over 5 years HK$'000
Deposits and balances of banks and other financial institutions	5,401,433	847,661	1,491,987	2,056,588	748,778	256,419	–
Deposits from customers	310,619,467	100,613,550	78,136,565	104,167,003	26,814,388	887,961	–
Financial liabilities at fair value through profit or loss	348,935	–	479	1,961	10,650	140,686	195,159
Derivative financial instruments	6,668,940	–	313,829	513,979	1,877,131	3,409,719	554,282
Loan capital	4,503,601	–	–	89,636	89,636	4,324,329	–
	327,542,376	101,461,211	79,942,860	106,829,167	29,540,583	9,019,114	749,441

37 Financial risk management *(continued)*

(d) Capital management

The Group's primary objectives when managing capital are:

– to comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate;

– to maintain a strong capital base to support the development of its business; and

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. The HKMA requires that the Group maintains three prescribed minimum risk-weighted capital ratios: Common Equity Tier 1 ("CET1") capital ratio, Tier 1 capital ratio and total capital ratio. In accordance with the Banking (Capital) (Amendment) Rules 2014 which came into effect on 1 January 2015, the Basel III capital buffers, namely capital conservation buffer ("CCB") which is designed to ensure that banks build up capital outside periods of stress of 2.5% of risk-weighted amounts and countercyclical capital buffer ("CCyB") which is set on an individual country basis and is built up during periods of excessive credit growth, came into operation. Both have been fully implemented on 1 January 2019. On 16 March 2020, the HKMA reduced the CCyB ratio for Hong Kong to 1.0% of risk-weighted amounts. Basel III framework also introduced a leverage ratio as a non-risk-based backstop limit, to supplement risk-based capital requirements. On 1 January 2018, the Banking (Capital) (Amendment) Rules 2017 came into operation and prescribed the statutory minimum leverage ratio of 3%.

The Group adopts the standardised approach of calculating market risk in its trading portfolios and risk weightings for credit risk, and the basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted amounts are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

37 Financial risk management *(continued)*

(d) Capital management *(continued)*

The Group 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. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts the Internal Capital Adequacy Assessment Process, which assesses the capital requirement for Pillar 2 risks and hence the capital requirement for Pillar 1 and 2 is derived. Moreover, as part of the capital management policy and to ensure capital adequacy, the Group conducts capital planning annually, which takes into account the strategic focus, future business growth, risk appetite and regulatory requirement. The plan covers the issuance of capital instruments, if required, to ensure the Group’s capital ratios are well above their respective internal monitoring levels and regulatory requirement. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also gives an insight into the potential impact of significant adverse events and how these could be mitigated.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio. There have been no material changes in the Group’s policy on the management of capital during the year.

The capital adequacy ratios at 31 December 2021 were computed on the consolidated basis of the Group and some subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31 December 2021 and 31 December 2020, and the Group’s capital ratios are well above the minimum required ratios set by the HKMA.

37 Financial risk management *(continued)*

(e) New Product Risk Governance

Definition of New Product Risk

New Product Risk comprise the risks associated with launch of new products and services (including changes to existing products and services), encompassing credit, market, interest rate, liquidity, operational, reputation, strategic, legal and compliance risks.

Governance Framework

The Group has established an enhanced product governance framework to instill more stringent and comprehensive assessment and approval processes prior to launch. The framework is governed by the New Product Approval Policy, which is approved by the Board and under the oversight of the New Product Committee ("NPC") and the CRMC. The effective implementation of the controls and monitoring measures is driven by the dedicated New Product Governance team under the Risk Management Group, with the support from other risk management functions and subject matter experts on specific risk areas, including the Controls & Compliance Group, Financial Management Group, Operations Management Group, Information Technology Group and CEO Office.

(f) Operational risk management

Definition of operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance framework

The Group has established an Operational Risk Governance Framework ("ORGF") to identify, assess, mitigate, control, monitor and report operational risk. The ORGF encompasses every member within the Group and is governed by policies and guidelines which define the minimum requirements to ensure a consistent approach to manage operational risks. The Operational Risk Management Committee ("ORMC") is established by the Chief Executive Officer ("CEO") and ratified by the Credit & Risk Management Committee ("CRMC"), which is a Board delegated Committee to oversee Operational Risk Management ("ORM") and relevant matters. Implementation of ORM plans and tools is driven by a Group-level ORM department with the support from other key participants and subject matter experts in ORM.

37 Financial risk management *(continued)*

(f) Operational risk management *(continued)*

Management of operational risk

To ensure effective management of operational risk across the Group, the Governance Structure presents three lines of defense as depicted below:

First Line of Defence – Day-to-day operational risk management lies with our business units, support units and the Business Operational Risk Officer ("BORO") of each unit assists the respective unit heads in this regard. Business and support units are responsible for identifying, assessing, managing and monitoring operational risks.

Second Line of Defence – ORM department assists management in meeting their responsibility of understanding and managing operational risk and ensures the development and consistent application of operational risk policies, processes and procedures throughout the Group. The ORM department works closely with the first Line of Defence (1LOD) to strengthen the Group's operational risk management by offering guidance and functional oversight support, monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to the ORMC, CRMC and senior management of the Group for their attention.

Third Line of Defence – The Internal Audit Group examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis.

Risk assessments are conducted on all outsourced activities, new products and large projects.

37 Financial risk management *(continued)*

(f) Operational risk management *(continued)*

Key tools and methodologies

The Group identifies, assesses, monitors and reports on operational risk through the ORM tools and systems as set out below:

– Operational Risk & Control Self-Assessment ("RCSA") is a tool to identify and assess the level of operational risk and effectiveness of control. RCSA has been rolled out across the business and support units under the guidance of the ORM department. RCSA leaders are nominated by the management of each business and support unit to conduct self-assessments and identify key risk factors in their daily business and support functions. Each key risk factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence and estimated number of occurrences. In addition to the financial impact assessment, non-financial impacts including customer, regulatory and reputation impacts are also assessed taking into considerations of both likelihood of risk materializing and severity of impact.

– Key Risk Indicators ("KRIs") are statistical metrics that take various risk factors into consideration and serve to provide early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and addressed promptly. KRIs are developed at two levels, namely the group and the unit level. Unit level KRIs are developed by the respective units, and are monitored and tracked for progress towards completion of applicable mitigation plans. Thresholds are established for each business unit and support unit with reference to the risk appetite of the Group or the acceptable risk level for the unit under each risk factor.

37 Financial risk management *(continued)*

(f) Operational risk management *(continued)*

Key tools and methodologies (continued)

- Operational risk incidents are reported into a centralized operational loss database. The ORM department ensures all material operational risk incidents are registered in the database, and are properly investigated, with corrective and preventive actions promptly executed according to agreed timelines. The loss data serves as a centralized database to produce regular reports for senior management, ORMC and CRMC review on the impact of significant incidents and monitoring of the operational risk loss trends. An escalation protocol is in place to ensure that operational risk incidents with significant impact are properly reported to the regulatory authorities, if deemed necessary. Lower impact operational risk events are also collected to assist trend analysis and provide a more forward looking perspective of potential risk issues that warrant for closer attention.

- Operational Risk Dashboard ("ORD") provides management with an overview of the key operational risk issues including but not limited to the progress of the RCSA reviews and KRI evaluation results. This information is submitted to the ORMC and relevant summarized information is submitted to the CRMC quarterly as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of ORM initiatives, contains analyses on the trend of operational losses, highlights operational risk incidents that have a material impact on the Group.

The Group will continuously fine-tune and enhance its operational risk governance framework to align with industrial developments and best practices. A web-based learning programme on operational risks is required for all new joiners and an annual refresher training on ORGF is compulsory for all staff. Training workshops led by the ORM team department are offered to business and support units with the objectives to raise operational risk awareness among staff, familiarize them with the ORM tools and enhance understanding of the ORGF along with their roles, responsibilities and accountabilities. This is further reinforced by strong management support which encourages staff to embrace and pursue operational excellence.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, and achieve operational excellence through robust and continuous operational risk management.

37 Financial risk management *(continued)*

(g) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, enhance its systems and processes, and implement changes as necessary to meet the demands and create awareness of such requirements. Regular reviews are conducted with respect to the Group's policies and procedures to ensure the same reflect the latest legal and regulatory requirements. Issuance of new or substantially revised policies and procedures are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant matters that arise relating to such risks are reported as appropriate by the Legal and Compliance function to the Group's CRMC or senior management.

The Legal and Compliance Department has been one of the key partners in the business, providing legal and compliance advice and support to all parts of the Group and working with business and support units to ensure relevant controls are in place. In 2021, the Legal and Compliance Department had actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group's business. The Legal and Compliance Department will remain heavily involved in monitoring and ensuring compliance with changing regulatory requirements in various areas impacting the Group, and will continue to advise and support the Group in meeting the legal and regulatory challenges that lay ahead.

(h) Strategic and reputation risk management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputation risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity and information about its business practices, conduct or financial condition.

37 Financial risk management *(continued)*

(h) Strategic and reputation risk management *(continued)*

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputation risks. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are executed professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently to changes in its operating and regulatory environment. Business priorities, set on a bank-wide basis, as well as for individual business and functional units, are aligned to support the Group's strategies, and measurable targets are assigned to ensure execution excellence. Great care is also taken to protect the Group's reputation and to maximise its brand equity. This includes ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication and issues management.

(i) IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative benchmark rates, the Group has set up a project committee to manage the transition for all of its contracts that could be affected. The project is led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. During 2021, the Group has successfully completed the transition of a significant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the remainder. Following the progress made during 2021, the Group is confident that it has the operational capability to process the remaining transitions to the RFRs for those interest rate benchmarks such as USD LIBOR that will cease to be available after 30 June 2023. For other benchmark interest rates such as EURIBOR that have been reformed and can therefore continue, financial instruments referencing those rates will not need to have a transition.

37 Financial risk management *(continued)*

(i) IBOR reform *(continued)*

IBOR reform exposes the Group to various risks, which the project committee is managing and monitoring closely and will implement specific mitigating controls when required. These risks include but are not limited to the following:

– Conduct risk arising from communications with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.

– Financial risk to the Group that markets are disrupted due to IBOR reform giving rise to financial losses.

– Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.

– Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted when an IBOR ceases to be available.

– Accounting risk arising from the unexpected volatility in income statement due to the failure of the Group's hedging relationships when the financial instruments transition from IBORs to RFRs.

Interest Rate Benchmark Reform Phase 2, the amendments, address issues affecting financial statements when changes are made to contractual cash flows. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark.

37 Financial risk management *(continued)*

(i) IBOR reform *(continued)*

The table below shows the Group's exposures at the year ended 31 December 2021 to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, i.e. it excludes exposures to IBOR that will expire before transition is required.

	At 31 December 2021			
	Non-derivative financial assets Notional amount HK$'000	**Non-derivative financial liabilities Notional amount HK$'000**	**Derivatives Nominal amount HK$'000**	**Loan commitment Nominal amount HK$'000**
USD Libor (a)	**41,188,022**	**–**	**117,666,150**	**4,227,715**
GBP Libor	**116,369**	**–**	**–**	**304,533**
EUR Libor	**689**	**–**	**–**	**–**
SGD SOR (b) or Sibor (c)	**1,778,473**	**–**	**–**	**206,371**
Total	**43,083,553**	**–**	**117,666,150**	**4,738,619**

(a) London interbank offer rate

(b) Swap offer rate

(c) Singapore interbank offer rate

The effect of IBOR reform on the Group's interest rate risk management is described in the note above. The specific impact on the Group's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. During 2021, the Group did not enter into any accounting hedge transaction.

38 Fair value measurement of financial instruments

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair value is determined according to the following fair value hierarchy:

	Fair value measurements at 31 December 2021 using			
Recurring fair value measurements	**Fair value at 31 December (Total) HK$'000**	**Quoted prices in active market for identical assets (Level 1) HK$'000**	**其Significant other observable input (Level 2) HK$'000**	**主Significant unobservable input (Level 3) HK$'000**
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	2,006,507	1,988,338	18,169	–
– Treasury bills	1,099,768	1,099,768	–	–
	3,106,275	3,088,106	18,169	–
Derivative financial instruments				
– Positive fair value of derivatives	8,888,842	–	8,888,842	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	4,490,521	737,266	3,753,255	–
– Treasury bills	39,187,201	39,187,201	–	–
– Debt securities	60,169,857	53,630,266	6,535,591	4,000
– Equity securities	78,869	–	–	78,869
	103,926,448	93,554,733	10,288,846	82,869
	115,921,565	96,642,839	19,195,857	82,869
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	768,006	768,006	–	–
Derivative financial instruments				
– Negative fair value of derivatives	8,766,335	30	8,766,305	–

38 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(i) Fair value hierarchy (continued)

	Fair value measurements at 31 December 2020 using			
Recurring fair value measurements	Fair value at 31 December (Total) HK$'000	Quoted prices in active market for identical assets (Level 1) HK$'000	Significant other observable input (Level 2) HK$'000	Significant unobservable input (Level 3) HK$'000
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	2,351,288	2,279,919	71,369	–
– Treasury bills	297,788	297,788	–	–
	2,649,076	2,577,707	71,369	–
Derivative financial instruments				
– Positive fair value of derivatives	14,378,601	615	14,377,986	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	5,179,894	475,947	4,703,947	–
– Treasury bills	23,503,712	23,503,712	–	–
– Debt securities	56,157,194	48,308,026	7,845,168	4,000
– Equity securities	110,068	–	–	110,068
	84,950,868	72,287,685	12,549,115	114,068
	101,978,545	74,866,007	26,998,470	114,068
Liabilities				
Financial liabilities at fair value through profit or loss				
– Short sales of debt securities	290,185	288,627	1,558	–
Derivative financial instruments				
– Negative fair value of derivatives	15,160,283	1,034	15,159,249	–

For the years ended 31 December 2021 and 2020, there were no significant transfers of financial instruments between level 1 and level 2 of the fair value hierarchy. For transfer in and out of Level 3 measurements see the note 38(a)(iii) below.

38 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(ii) Determination of fair value

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

Level 1 –

Quoted (unadjusted) market price in active markets for identical instruments at the measurement date.

Level 2 –

(i) Quoted market price for identical or similar instruments that are not active;

(ii) Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 –

Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques. Valuation techniques include net present value, discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

38 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(ii) Determination of fair value (continued)

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability, and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

(iii) Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**	**Fair value measurement sensitivity to unobservable inputs**
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate	Significant increase in the estimated risk-free rate would result in a lower fair value
Equity securities	Dividend growth model	Forecasted dividend and estimated risk-free rate	Refer to sensitivity analysis in note 38(a)(iv)

Note:

Both of debt and equity securities under level 3 fair value measurements are generally classified as financial assets at fair value through other comprehensive income and are not traded in the active market, accordingly, the fair value is estimated by reference to common market valuation models.

38 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(iii) Information about Level 3 fair value measurements (continued)

The following table shows a reconciliation between the opening and the closing balance of fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through other comprehensive income		**Total**
Assets	**Debt securities HK$'000**	**Equity securities HK$'000**	**HK$'000**
At 1 January 2021	**4,000**	**110,068**	**114,068**
Purchases	**–**	**673**	**673**
Transfer from Level 1	**23,383**	**–**	**23,383**
Gains/(losses) recognised in the income statement	**121**	**(36)**	**85**
Losses recognised in other comprehensive income	**(23,504)**	**(31,836)**	**(55,340)**
At 31 December 2021	**4,000**	**78,869**	**82,869**
Total gains/(losses) for the year included in the income statement for assets held at the end of the reporting period recorded in:			
– Gains/(losses) from dealing in foreign currencies	**121**	**(36)**	**85**
Total losses recognised in other comprehensive income	**(23,504)**	**(31,836)**	**(55,340)**

	Financial assets at fair value through other comprehensive income		Total
Assets	Debt securities HK$'000	Equity securities HK$'000	HK$'000
At 1 January 2020	4,000	108,336	112,336
Transfer from level 2	40,843	–	40,843
Gains recognised in the income statement	–	46	46
(Losses)/gains recognised in other comprehensive income	(40,843)	1,686	(39,157)
At 31 December 2020	4,000	110,068	114,068
Total gains for the year included in the income statement for assets held at the end of the reporting period recorded in:			
– Gains from dealing in foreign currencies	–	46	46
Total (losses)/gains recognised in other comprehensive income	(40,843)	1,686	(39,157)

38 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(iv) Sensitivity of fair values to reasonably possible alternative assumptions

For the level 3 financial assets at fair value through other comprehensive income (equity securities), its fair value is measured by using a valuation model to incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of level 3 fair value measurements on the equity securities measured at fair value through other comprehensive income. The basis of 10% change in reasonably possible alternative assumptions on risk-free rate will determine the favourable and unfavourable changes on the fair value measurements.

	31 December 2021			
	Effect on income statement		**Effect on other comprehensive income**	
Assets	**Favourable HK$'000**	**(Unfavourable) HK$'000**	**Favourable HK$'000**	**(Unfavourable) HK$'000**
Financial assets at fair value through other comprehensive income				
– Equity securities	**–**	**–**	**5,745**	**(4,696)**

	31 December 2020			
	Effect on income statement		Effect on other comprehensive income	
Assets	Favourable HK$'000	(Unfavourable) HK$'000	Favourable HK$'000	(Unfavourable) HK$'000
Financial assets at fair value through other comprehensive income				
– Equity securities	–	–	8,618	(7,835)

38 Fair value measurement of financial instruments *(continued)*

(b) Fair values of financial instruments not measured at fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values at 31 December 2021 and 2020 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates, and mature within one year. Accordingly, the carrying values approximate the fair value.

The fair values of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which are mainly repriced within 3 months, approximately equals their carrying amount.

38 Fair value measurement of financial instruments *(continued)*

(b) Fair values of financial instruments not measured at fair value *(continued)*

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 31 December 2021 and 2020, except the following:

	2021				
	Carrying amount HK$'000	**Fair value HK$'000**	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Financial liabilities					
Loan capital	**3,883,863**	**4,162,542**	**–**	**4,162,542**	**–**

	2020				
	Carrying amount HK$'000	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial liabilities					
Loan capital	3,855,374	4,116,794	4,116,794	–	–

39 Contingent assets, liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

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

	2021	2020
	HK$'000	HK$'000
Direct credit substitutes	**391,928**	482,575
Transaction-related contingencies	**974,821**	977,663
Trade-related contingencies	**6,446,078**	5,871,861
Forward forward deposits placed	**14,424**	12,920,238
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**98,222,623**	89,362,475
– with an original maturity of not more than 1 year	**2,443,195**	4,017,915
– with an original maturity of more than 1 year	**13,632,064**	4,511,472
	122,125,133	118,144,199
Credit risk-weighted amounts	**9,172,993**	7,254,665

Contingent liabilities and commitments are credit-related instruments which include forward forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved 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 contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2020: 0% to 150%).

39 Contingent assets, liabilities and commitments *(continued)*

(b) Capital commitments

Capital commitments mainly for projects and the purchase of equipment outstanding at 31 December 2021 not provided for in the financial statements are as follows:

	2021	2020
	HK$'000	HK$'000
Authorised and contracted for	**159,742**	177,150

(c) Contingent liability in respect of legal claim

The Group was not involved in any legal action that would be significant to the financial position of the Group at 31 December 2021 and 2020.

40 Trust activities

The Group commonly acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising therefrom are excluded from these financial statements as they are not assets of the Group.

41 Immediate parent and ultimate controlling party

At 31 December 2021, the Directors considered the immediate parent of the Group to be CITIC International Financial Holdings Limited, which is incorporated in Hong Kong, and the ultimate controlling party of the Group to be CITIC Group Corporation, which is incorporated in Mainland China.

42 Statement of financial position and reserve movement of the Bank

(a) Statement of financial position of the Bank

At 31 December 2021

(Expressed in Hong Kong dollars)

	Note	**2021** **HK$'000**	2020 HK$'000
ASSETS			
Cash and balances with banks and central banks		**29,369,984**	32,367,615
Placements with and advances to banks		**21,058,640**	28,596,665
Financial assets at fair value through profit or loss		**2,744,341**	2,201,704
Derivative financial instruments		**8,842,512**	14,368,120
Loans and advances to customers and other accounts		**232,325,270**	212,048,355
Financial assets at fair value through other comprehensive income		**102,176,567**	83,990,154
Amounts due from subsidiaries		**7,678,253**	7,717,699
Investments in subsidiaries		**1,756,408**	1,756,418
Amortised cost investments		**53,375**	48,493
Property and equipment			
– Investment properties		**416,000**	231,000
– Other premises and equipment		**447,527**	478,517
Right-of-use assets		**526,394**	643,895
Intangible assets		**534,331**	629,446
Tax recoverable		**–**	40,426
Deferred tax assets		**148,529**	143,782
Total assets		**408,078,131**	385,262,289
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		**13,085,693**	3,831,330
Deposits from customers		**320,690,915**	304,984,316
Financial liabilities at fair value through profit or loss		**768,006**	290,185
Derivative financial instruments		**8,733,253**	15,159,575
Certificates of deposit issued		**1,481,389**	–
Current tax liabilities		**43,577**	3,133
Other liabilities		**9,505,857**	9,387,650
Lease liabilities		**560,143**	666,593
Amounts due to subsidiaries		**1,074,685**	693,486
Loan capital		**3,883,863**	3,855,374
Total liabilities		**359,827,381**	338,871,642
EQUITY			
Share capital	31(a)	**18,404,013**	18,404,013
Reserves	42(b)	**21,291,920**	20,216,222
Total shareholders' equity		**39,695,933**	38,620,235
Other equity instruments	32	**8,554,817**	7,770,412
Total Equity		**48,250,750**	46,390,647
Total Equity and Liabilities		**408,078,131**	385,262,289

Approved and authorised for issue by the Board of Director on 22 March 2022.

BI Mingqiang	**TANG Nai Pan**
Executive Director, President and Chief Executive Officer	*Executive Director and Deputy Chief Executive Officer*

42 Statement of financial position and reserve movement of the Bank *(continued)*

(b) Movement in components of equity of the Bank

Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

The Bank

	Share capital 港幣千元 HK$'000	Capital reserve 港幣千元 HK$'000	General reserve 港幣千元 HK$'000	Property revaluation reserve 港幣千元 HK$'000	Investment revaluation reserve 港幣千元 HK$'000	Retained profits 港幣千元 HK$'000	Total reserves 港幣千元 HK$'000	Other equity instruments (note 32) 港幣千元 HK$'000	Total equity 港幣千元 HK$'000
At 1 January 2021	**18,404,013**	**2,903**	**100,000**	**134,931**	**587,743**	**19,390,645**	**20,216,222**	**7,770,412**	**46,390,647**
Changes in equity for 2021:									
Profit for the year	–	–	–	–	–	1,822,502	1,822,502	–	1,822,502
Other comprehensive income for the year	–	–	–	159,602	(436,976)	–	(277,374)	–	(277,374)
Total comprehensive income for the year	–	–	–	159,602	(436,976)	1,822,502	1,545,128	–	1,545,128
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	(441,432)	(441,432)	–	(441,432)
Issue of AT1 Capital Securities	–	–	–	–	–	–	–	4,647,489	4,647,489
Redemption of AT1 Capital Securities	–	–	–	–	–	(27,998)	(27,998)	(3,863,084)	(3,891,082)
At 31 December 2021	**18,404,013**	**2,903**	**100,000**	**294,533**	**150,767**	**20,743,717**	**21,291,920**	**8,554,817**	**48,250,750**
At 1 January 2020	18,404,013	2,903	100,000	76,245	334,670	18,797,023	19,310,841	7,770,412	45,485,266
Changes in equity for 2020:									
Profit for the year	–	–	–	–	–	1,033,509	1,033,509	–	1,033,509
Other comprehensive income for the year	–	–	–	58,686	253,073	–	311,759	–	311,759
Total comprehensive income for the year	–	–	–	58,686	253,073	1,033,509	1,345,268	–	1,345,268
Distribution payment for AT1 Capital Securities	–	–	–	–	–	(439,887)	(439,887)	–	(439,887)
At 31 December 2020	18,404,013	2,903	100,000	134,931	587,743	19,390,645	20,216,222	7,770,412	46,390,647

43 Approval of financial statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2022.

Unaudited Supplementary Financial Information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Regulatory disclosure statements available on the Bank's corporate website

The Group's regulatory disclosure information is published by using standard disclosure templates as specified by the HKMA ('Regulatory Disclosure Statement') and that can be viewed in the Regulatory Disclosures section of our Bank's corporate website www.cncbinternational.com. The Bank's Regulatory Disclosure Statement, together with the disclosures in the annual report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. Certain comparatives have been revised in order to align with the latest books and records and banking returns submitted to the HKMA.

(B) Capital adequacy

(i) Capital base

Capital adequacy ratios ("CARs") are complied in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	2021	2020
	HK$'000	HK$'000
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,052,185**	18,404,013
Retained earnings	**22,119,639**	20,416,204
Disclosed reserves	**822,674**	1,050,761
CET1 capital before regulatory deductions	**40,994,498**	39,870,978
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**168,886**	174,107
Other intangible assets (net of related deferred tax liability)	**539,779**	635,101
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	**340,202**	173,822
Regulatory reserve for general banking risks	**2,061,314**	1,926,768
Valuation adjustments	**22,638**	26,117
Debt valuation adjustments in respect of derivative contracts	**2,631**	2,330
Total regulatory deductions to CET1 capital	**3,135,450**	2,938,245
CET1 capital	**37,859,048**	36,932,733
Additional Tier 1 ("AT1") capital		
AT1 capital	**8,556,000**	7,772,060
Tier 1 capital	**46,415,048**	44,704,793
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**3,898,392**	3,876,149
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**153,091**	78,220
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**3,472,342**	3,234,537
Tier 2 capital base before deductions	**7,523,825**	7,188,906
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,523,825**	7,188,906
Total capital	**53,938,873**	51,893,699

(B) Capital adequacy *(continued)*

(ii) Risk-weighted assets

	2021	2020
	HK$'000	HK$'000
– Credit risk	**284,298,587**	271,035,616
– Market risk	**16,346,413**	15,412,575
– Operational risk	**14,920,038**	15,048,263
	315,565,038	301,496,454

(iii) Capital adequacy ratios

	2021	2020
– CET1 capital ratio	**12.0%**	12.2%
– Tier 1 capital ratio	**14.7%**	14.8%
– Total capital ratio	**17.1%**	17.2%

(iv) Capital instruments

The following is a summary of the Group's CET1, Additional Tier 1 Capital Securities and Tier 2 capital instruments.

	2021	2020
	HK$'000	HK$'000
CET1 capital instruments issued by the Bank		
Ordinary shares:		
12,111,121,568 issued and fully paid ordinary shares	**18,404,013**	18,404,013

	2021	2020
	HK$'000	HK$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$500 million (issued in 2016)	**–**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million (issued in 2018)	**3,907,328**	3,907,328
Undated non-cumulative subordinated capital securities with US$600 million (issued in 2021)	**4,647,489**	–
	8,554,817	7,770,412

(B) Capital adequacy *(continued)*

(iv) Capital instruments *(continued)*

	2021	2020
	HK$'000	HK$'000
Tier 2 capital instruments		
Issued by the Bank		
–US$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	**3,883,863**	3,855,374
	3,883,863	3,855,374

(v) Basis of consolidation

Unless otherwise stated, all financial information contained in the annual financial report is prepared according to the consolidation basis for accounting purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are disclosed as follows:

The Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 31 December 2021	
		Total assets	**Total equity**
Names of subsidiaries	**Principal activities**	**HK$'000**	**HK$'000**
Carford International Limited	– Property holding	**42,807**	**19,810**
CITIC Bank International (China) Limited	– Banking	**13,153,529**	**1,638,882**
CITIC Insurance Brokers Limited	– Insurance broker	**617,392**	**598,087**
HKCB Finance Limited	– Consumer financing	**6,251,643**	**702,544**
Ka Wah International Merchant Finance Limited	– Inactive	**2,142**	**2,142**
The Ka Wah Bank (Trustee) Limited	– Trustee services	**3,666**	**3,651**

(B) Capital adequacy *(continued)*

(v) Basis of consolidation *(continued)*

Subsidiaries not included in consolidation for regulatory purposes are mainly nominee services companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

		At 31 December 2021	
Names of subsidiaries	**Principal activities**	**Total assets HK$'000**	**Total equity HK$'000**
The Hongkong Chinese Bank (Nominees) Limited	– Nominee services	**3**	**(1)**
The Ka Wah Bank (Nominees) Limited	– Nominee services	**3,852**	**–**
Security Nominees Limited	– Nominee services	**–**	**–**
CNCBI Investment Holdings Limited	– Investment holding	**585,819**	**446,147**
CNCBI Asset Management Limited	– Asset management	**17,829**	**16,321**
CNCBI Financial Consultant Limited	– Not yet commenced business	**738**	**(6,048)**
Prosperous Century Global Bond Fund SP (held through Prosperous Century Global Investment Fund SPC)	– Investment fund	**252,418**	**250,854**
Prosperous Century High Yield Bond Fund SP (held through Prosperous Century Global Investment Fund SPC)	– Investment fund	**262,652**	**262,335**

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 31 December 2021 and 2020.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

During the year ended 31 December 2021, a subsidiary named Sino-Allied Development Limited was disposed.

(C) Capital charge for operational risk

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

	2021 **HK$'000**	2020 HK$'000
Capital charge for operational risk	**1,193,603**	1,203,861

(D) Further analysis on loans and advances to customers

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2021		2020	
	Gross loans and advances to customers HK$'000	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**8,951,242**	**64**	11,268,407	70
– Property investment	**15,064,324**	**98**	13,460,635	97
– Financial concerns	**14,866,601**	**10**	12,698,994	31
– Stockbrokers	**4,616,449**	**45**	4,044,282	24
– Wholesale and retail trade	**8,813,954**	**87**	9,618,761	81
– Manufacturing	**6,149,656**	**26**	9,762,067	18
– Transport and transport equipment	**2,207,235**	**23**	3,326,439	15
– Recreational activities	**1,396,460**	**15**	1,891,488	3
– Information technology	**4,140,974**	**4**	6,759,381	5
– Others	**12,106,121**	**62**	12,454,426	54
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,734**	**100**	25,360	100
– Loans for the purchase of other residential properties	**22,708,364**	**100**	21,168,747	100
– Credit card advances	**634,385**	**–**	434,591	–
– Others	**19,463,914**	**93**	16,152,868	94
Gross loans and advances for use in Hong Kong	**121,138,413**	**68**	123,066,446	64
Trade finance	**6,628,733**	**22**	5,441,544	30
Gross loans and advances for use outside Hong Kong	**114,899,885**	**19**	91,588,444	25
Gross loans and advances to customers	**242,667,031**	**44**	220,096,434	47

(D) Further analysis on loans and advances to customers *(continued)*

The analysis of impaired loans and advances to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	2021					
	Overdue loans and advances to customers HK$'000	**Impaired loans and advances to customers HK$'000**	**Stage 1 ECL allowances HK$'000**	**Stage 2 ECL allowances HK$'000**	**Stage 3 ECL allowances HK$'000**	**Expected credit losses on income statement during the year HK$'000**
Gross loans and advances for use outside Hong Kong	**883,981**	**1,086,034**	**936,744**	**58,840**	**258,475**	**1,450,584**

	2020					
	Overdue loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000	Stage 1 ECL allowances HK$'000	Stage 2 ECL allowances HK$'000	Stage 3 ECL allowances HK$'000	Expected credit losses on income statement during the year HK$'000
Gross loans and advances for use outside Hong Kong	2,687,898	2,679,495	382,154	429,761	981,748	1,804,363

(D) Further analysis on loans and advances to customers *(continued)*

By geographical areas

	2021					
	Loans and advances to customers	**Overdue loans and advances to customers**	**Impaired loans and advances to customers**	**Stage 1 ECL allowances**	**Stage 2 ECL allowances**	**Stage 3 ECL allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**164,317,771**	**1,408,801**	**1,954,280**	**653,299**	**77,670**	**554,531**
Mainland China	**51,062,202**	**287,812**	**294,102**	**331,139**	**88,604**	**–**
United States	**9,380,688**	**–**	**–**	**27,962**	**–**	**–**
Singapore	**5,425,256**	**–**	**–**	**50,734**	**–**	**–**
Others	**12,481,114**	**5,858**	**5,858**	**79,214**	**8,693**	**–**
	242,667,031	**1,702,471**	**2,254,240**	**1,142,348**	**174,967**	**554,531**

	2020					
	Loans and advances to customers	Overdue loans and advances to customers	Impaired loans and advances to customers	Stage 1 ECL allowances	Stage 2 ECL allowances	Stage 3 ECL allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	134,288,116	3,153,773	3,267,687	252,699	62,140	1,047,332
Mainland China	49,681,995	–	–	193,368	515,386	–
United States	9,276,279	–	–	26,765	–	–
Singapore	4,693,656	–	–	28,675	5	–
Others	22,156,388	363,489	363,489	87,465	209	226,412
	220,096,434	3,517,262	3,631,176	588,972	577,740	1,273,744

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(E) Overdue assets

Overdue loans and advances to customers

	2021		2020	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**489,887**	**0.20**	66,950	0.03
– 1 year or less but over 6 months	**167,255**	**0.07**	2,610,339	1.19
– over 1 year	**1,045,329**	**0.43**	839,973	0.38
	1,702,471	**0.70**	3,517,262	1.60
Secured overdue loans and advances	**1,620,537**		2,729,091	
Unsecured overdue loans and advances	**81,934**		788,171	
	1,702,471		3,517,262	
Market value of collateral held against the secured overdue loans and advances	**3,765,237**		2,995,913	
Expected credit losses allowances	**383,981**		1,244,814	

Loans and advances with specific repayment dates are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

(E) Overdue assets *(continued)*

Overdue loans and advances to customers *(continued)*

Eligible collateral, which is held in respect of the overdue loans and advances, is 'Eligible Physical Collateral' which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset is readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposal of the asset.

(c) The Bank's right to repossess the asset is legally enforceable and without impediment.

(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions which were overdue for over three months at 31 December 2021 and 2020.

(F) Rescheduled loans

	2021		2020	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**5,545**	**0.002**	4,903	0.002

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (E).

There were no advances to banks and other financial institutions which were rescheduled at 31 December 2021 and 2020.

(G) Repossessed assets

	2021	2020
	HK$'000	HK$'000
Included in loans and advances to customers and other accounts	**259,517**	54,166

The amount represents the estimated market value of the repossessed assets at 31 December 2021 and 2020.

(H) International claims

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are disclosed as follows.

	2021				
			Non-bank private sector		
	Banks HK$'000	**Official Sector HK$'000**	**Non-bank financial institutions HK$'000**	**Non-financial private sector HK$'000**	**Total HK$'000**
Developed countries	**21,186,925**	**7,849,066**	**1,622,973**	**4,787,610**	**35,446,574**
Offshore centres	**6,561,287**	**241,614**	**20,994,467**	**57,679,765**	**85,477,133**
of which Hong Kong	**5,140,660**	**241,196**	**17,747,075**	**48,919,329**	**72,048,260**
Developing Asia-Pacific	**32,156,750**	**7,602,966**	**8,363,208**	**52,596,772**	**100,719,696**
of which Mainland China	**27,717,481**	**7,590,329**	**8,363,208**	**49,390,308**	**93,061,326**

	2020				
			Non-bank private sector		
	Banks HK$'000	Official Sector HK$'000	Non-bank financial institutions HK$'000	Non-financial private sector HK$'000	Total HK$'000
Developed countries	39,453,287	12,547	1,881,172	9,299,523	50,646,529
Offshore centres	6,601,830	57,092	12,705,306	51,303,818	70,668,046
of which Hong Kong	2,299,845	56,694	11,951,907	35,930,168	50,238,614
Developing Asia-Pacific	31,866,827	6,025,006	9,943,862	52,293,741	100,129,436
of which Mainland China	27,800,973	6,012,021	9,421,396	49,363,211	92,597,601

(I) Mainland Activities

Mainland Activities are Mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities.

	2021		
	On-statement of financial position exposure HK$'000	**Off-statement of financial position exposure HK$'000**	**Total HK$'000**
(1) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**55,320,541**	**2,625,640**	**57,946,181**
(2) Local governments, local government-owned entities and their subsidiaries and JVs	**17,293,195**	**1,163,475**	**18,456,670**
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**45,781,229**	**4,303,479**	**50,084,708**
(4) Other entities of central government not reported in item 1 above	**3,972,313**	**327,232**	**4,299,545**
(5) Other entities of local governments not reported in item 2 above	**1,122,896**	**332,200**	**1,455,096**
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**30,613,592**	**1,427,781**	**32,041,373**
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**11,144,223**	**252,301**	**11,396,524**
Total	**165,247,989**	**10,432,108**	**175,680,097**
Total assets after provision	**392,314,798**		
On-balance sheet exposures as percentage of total assets	**42.1%**		

(I) Mainland Activities *(continued)*

	2020		
	On-statement of financial position exposure HK$'000	Off-statement of financial position exposure HK$'000	Total HK$'000
(1) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	47,675,097	1,574,677	49,249,774
(2) Local governments, local government-owned entities and their subsidiaries and JVs	13,129,549	1,109,794	14,239,343
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	51,600,070	6,217,222	57,817,292
(4) Other entities of central government not reported in item 1 above	6,283,211	93,004	6,376,215
(5) Other entities of local governments not reported in item 2 above	1,183,277	426,200	1,609,477
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	23,983,087	1,820,144	25,803,231
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	12,186,046	77,093	12,263,139
Total	156,040,337	11,318,134	167,358,471
Total assets after provision	379,702,621		
On-balance sheet exposures as percentage of total assets	41.1%		

(J) Corporate governance

The Group is committed to high standards of corporate governance and has complied, in all material respects, throughout the year with the modules on 'Corporate Governance of Locally Incorporated Authorised Institutions' and 'Guideline on a Sound Remuneration System' issued by the HKMA. The Board of Directors of the Bank has established a number of committees including the Audit Committee, the Credit & Risk Management Committee, the Nomination Committee and the Remuneration Committee. Their composition and functions are explained in detail in "Corporate Information" and "Corporate Governance and Other Information", which will be included in the printed version of the Group's annual report.