香港交易及結算所有限公司及香港聯合交易所有限公司對本公告之內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不就因本公告全部或任何部份內容而產生或因倚賴該等內容而引致之任何損失承擔任何責任。

本公告僅供參考，並不構成收購、購買或認購本公告所述證券的邀請或要約。

*本公告不構成或形成任何要約或招攬購買或認購美國證券的一部分。該等證券不會及將不會根據1933年美國證券法（經修訂）（「**證券法**」）或美國任何州或其他司法管轄區的證券法進行登記。除某些例外情況外，該等證券不得在美國境內或向美國人士（定義見證券法S條例）或為其帳戶或利益發售或出售。根據證券法S條例，該等證券僅在美國境外向非美國人士發售。*

本公告及隨附的上市文件乃按香港聯合交易所有限公司證券上市規則（「上市規則」）規定刊發僅供參考之用，並不構成出售任何證券的要約或購買任何證券的要約邀請。本公告及本文所述任何內容（包括隨附的上市文件）並非任何合同或承諾的依據。*為免生疑，刊發本公告及隨附的上市文件不應被視為就香港法例第32章公司（清盤及雜項條文）條例而言由發行人（定義見下文）或其代表刊發的招股章程提出的證券發售要約，亦不屬於香港法例第571章證券及期貨條例所指其中載有向公眾人士發出邀請以訂立或發出要約以訂立有關購買、出售、認購或承銷證券的協議的廣告、邀請或文件。*

香港投資者敬請注意*：發行人（定義見下文）確認，根據該計劃（定義見下文）發行的工具（定義見發售通函（定義見下文））僅供專業投資者（定義見香港聯合交易所有限公司證券上市規則第37章）購買，該計劃已經及該等工具（如將於香港聯合交易所有限公司上市）將會按該基準於香港聯合交易所有限公司上市。據此，發行人確認該等工具不適合作為香港散戶的投資。投資者應審慎考慮所涉及的風險。*

刊發發售通函

創興銀行有限公司
Chong Hing Bank Limited

（在香港註冊成立的有限公司）

2,000,000,000 美元中期票據及
永續資本證券計劃

安排人及交易商

創興銀行 **中銀國際** **匯豐** **中信證券**

交易商

農銀國際 **越秀証券** **創興證券**

本公告乃根據上市規則第 37.39A 條刊發。

請參閱本公告隨附的日期為 2025 年 9 月 12 日有關創興銀行有限公司（「**發行人**」）的 2,000,000,000 美元中期票據及永續資本證券計劃（「**該計劃**」）的發售通函（「**發售通函**」）。誠如發售通函所述，該計劃項下之任何票據或永續資本證券擬僅供專業投資者（定義見上市規則第 37 章）購買，並且將按該基準於香港聯合交易所有限公司上市。

發售通函並不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，且並非向公眾發出邀請以就認購或購買任何證券作出要約，亦非供傳閱以邀請公眾就認購或購買任何證券作出要約。

發售通函不得被視為認購或購買發行人任何證券的勸誘，且並無意進行有關勸誘。

2025年9月15日

於本公告日期，創興銀行有限公司董事會由下列人士組成：

- *執行董事*
  宗建新先生（副主席兼行政總裁）、劉惠民先生（副行政總裁）及金林先生（副行政總裁）；

- *非執行董事*
  李鋒先生（主席）、林昭遠先生及陳靜女士；及

- *獨立非執行董事*
  鄭毓和先生、李家麟先生及佘立發先生。

附錄

日期為2025年9月12日的發售通函

IMPORTANT NOTICE

NOT FOR DISTRIBUTION WITHIN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTION, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your Representation: In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Chong Hing Bank Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited and CLSA Limited (the "**Arrangers**") and ABCI Capital Limited, Yue Xiu Securities Company Limited and Chong Hing Securities Limited (together with the Arrangers, the "**Dealers**") and Chong Hing Bank Limited (the "**Bank**") (1) that you and any customers you represent are and that the electronic mail address that you gave the Bank and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the attached Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

The attached Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Arrangers and Dealers or any affiliate of the Arrangers or Dealers are a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arrangers or Dealers or such affiliate on behalf of the Bank in such jurisdiction.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Bank, the Arrangers, the Dealers or any of the Agents (each as defined in the attached Offering Circular) nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Offering Circular dated 12 September 2025

創興銀行有限公司
Chong Hing Bank Limited

CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

U.S.$2,000,000,000
Medium Term Note and Perpetual Capital Securities Programme

Under the U.S.$2,000,000,000 Medium Term Note and Perpetual Capital Securities Programme described in this Offering Circular (the "**Programme**"), Chong Hing Bank Limited (the "**Bank**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") or perpetual capital securities (the "**Perpetual Capital Securities**" and, together with the Notes, the "**Instruments**"). The Instruments may include Senior Notes (as defined under "*Terms and Conditions of the Notes*"), Subordinated Notes (as defined under "*Terms and Conditions of the Notes*") and the Perpetual Capital Securities (as defined under "*Terms and Conditions of the Perpetual Capital Securities*") issued by the Issuer, which may qualify as regulatory capital of the Issuer. The aggregate nominal amount of Instruments outstanding will not at any time exceed U.S.$2,000,000,000 (or the equivalent in other currencies).

The Instruments are complex and high risk financial instruments. There are risks inherent in the holding of any Instruments, including for example in respect of Subordinated Notes and Perpetual Capital Securities including the risks in relation to their subordination and the circumstances in which Instrumentholders may suffer loss as a result of holding any Instruments. Prospective investors should have regard to the factors described under the section headed "*Investment Considerations*" in this Offering Circular for a discussion of certain considerations to be taken into account in connection with an investment in the Instruments. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and the relevant Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in the Instruments in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Instruments. Investors should not purchase the Instruments unless they understand and are able to bear risks associated with the Instruments.

The Instruments may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Instruments being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Instruments.

Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in "*Summary of the Programme*") of Instruments will be set out in a Pricing Supplement.

Where applicable for a relevant Tranche of Instruments, registration will be completed by the Issuer pursuant to the Administrative Measures for the Review and Registration of Medium- and Long-Term Foreign Debt of Enterprises (《企業中長期外債審核登記管理辦法》(國家發展和改革委員會令第56號)) which came into effect on 10 February 2023 (the "**NDRC Administrative Measures**") and a certificate will be obtained from the NDRC (as defined in the Conditions) evidencing such registration. So long as any such Instruments remains outstanding, the Issuer will file or cause to be filed with the NDRC the requisite information and documents in respect of the Instruments within the relevant prescribed timeframes after the relevant issue date in accordance with the NDRC Administrative Measures and any implementation rules as issued by the NDRC from time to time.

Each Series (as defined in "*Summary of the Programme*") of Instruments in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**"). Instruments in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each 's entire holding of Registered Instruments of one Series. The Instruments of each Series in registered form will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream or CMU (as defined below), with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU**") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream or CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**" or "**HKSE**") for the listing of the Programme on the Hong Kong Stock Exchange under which Instruments may be issued to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular. This Offering Circular is for distribution to professional investors only.

Notice to Hong Kong investors: The Issuer confirms that the Instruments to be issued under the Programme are intended for purchase by Professional Investors only, and the Programme and the Instruments, to the extent such Instruments are to be listed on the Hong Kong Stock Exchange, will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Instruments are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme or the Instruments on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Instruments or the Issuer or the Group (as defined below) or quality of disclosure in this Offering Circular.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The Programme provides that Instruments may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Instruments.

Prospective investors should have regard to the factors described under the section headed "Investment Considerations" in this Offering Circular.

The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Instruments may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Instruments may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States. Registered Instruments are subject to certain restrictions on transfer, see "*Subscription and Sale*".

EU MiFID II product governance/target market – The Pricing Supplement in respect of any Instruments may include a legend entitled "*EU MiFID II Product Governance*" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person subsequently offering, selling or recommending the Instruments (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**EU MiFID II**") is responsible for undertaking its own target market assessment in respect of the Instruments and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**EU MiFID Product Governance Rules**"), any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the EU MiFID Product Governance Rules.

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Instruments may include a legend entitled "*UK MiFIR Product Governance*" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the UK MiFIR product governance rules set out in the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Instruments includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Instruments includes a legend entitled "*Prohibition of Sales to UK Retail Investors*", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Issuer may agree with any Dealer that Instruments may be issued in a form not contemplated by the Terms and Conditions of the Notes ("**Note Conditions**") or the Terms and Conditions of the Perpetual Capital Securities ("**Perpetual Capital Securities Conditions**") herein (the Note Conditions and the Perpetual Capital Securities Conditions together, the "**Conditions**"), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments.

Moody's Ratings ("**Moody's**") is expected to rate the Senior Notes issued under the Programme "Baa2" and the Perpetual Capital Securities issued under the Programme "Ba3". Fitch Ratings Inc. ("**Fitch**") is expected to rate the Senior Notes issued under the Programme "BBB (EXP)". Tranches of Instruments to be issued under the Programme will be rated or unrated. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Instruments already issued. Where a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

Chong Hing Bank **BOC International** **HSBC** **CITIC Securities**

Dealers

ABC International **Yue Xiu Securities** **Chong Hing Securities Limited**

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Instruments, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Instruments. The Issuer accepts responsibility accordingly.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

EU MiFID II product governance/target market – The Pricing Supplement in respect of any Instruments may include a legend entitled "*EU MiFID II Product Governance*" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. A distributor should take into consideration the target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the EU MiFID Product Governance Rules, any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the EU MiFID Product Governance Rules.

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Instruments may include a legend entitled "*UK MiFIR Product Governance*" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

Important – EEA Retail Investors – If the Pricing Supplement in respect of any Instruments includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Important – UK Retail Investors – If the Pricing Supplement in respect of any Instruments includes a legend entitled "*Prohibition of Sales to UK Retail Investors*", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Instruments or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the Instruments.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Instruments and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or the Dealers (as defined in "*Summary of the Programme*") or the Trustee or the Agents (as defined in "*Terms and Conditions of the Notes*") (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Instruments should be considered as a recommendation by the Issuer, any Dealer, any Arranger, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Instruments should purchase any Instruments. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Instruments should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Instruments constitutes an offer or invitation by or on behalf of the Issuer, any Dealer, any Arranger, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to any person to subscribe for or to purchase any Instruments.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries (the "**Group**") since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restriction.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Instruments, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Instruments are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Instruments are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Instruments and distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Instruments in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuer, any Arranger, the Agents, the Trustee or any Dealer (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) makes any representation to any investor in the Instruments regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Instruments may be restricted by law in certain jurisdictions.

None of the Issuer, the Dealers, the Arrangers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Offering Circular may be lawfully distributed, or that any Instruments may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the Issuer, the Dealers, the Arrangers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) which is intended to permit a public offering of any Instruments or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Instruments may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Instruments may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Instruments. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Instruments in the United States, the European Economic Area, the United Kingdom, Hong Kong and Singapore. See "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers or a Dealer or the Trustee or any Agent or on its behalf in connection with the Issuer or the issue and offering of the Instruments. The Arrangers, each Dealer, the Trustee and each Agent (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Instruments. Each potential investor of Instruments should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Instruments of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them).

The Dealers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Dealers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer or any member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Dealers and their respective affiliates may purchase the Instruments and be allocated Instruments for asset management and/or proprietary purposes but not with a view to distribution. References herein to the Instruments being offered should be read as including any offering of the Instruments to the Dealers and/or their respective affiliates acting in such capacity. In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Instruments being offered, including the merits and risks involved. The Issuer does not and the Arrangers, the Dealers, the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Instruments for an indefinite period of time.

STABILISATION

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the relevant Pricing Supplement may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Instruments is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Instruments and 60 days after the date of the allotment of the relevant Tranche of Instruments. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Instruments pursuant to this Programme (each such offering, a "**CMI Offering**"), including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Instruments and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Instruments subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Instruments distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50 per cent. interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant

CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

PRESENTATION OF INFORMATION

In this Offering Circular, unless the context otherwise requires: (i) references to the "**Bank**" or the "**Issuer**" mean Chong Hing Bank Limited and, as the context may require, its subsidiaries; and (ii) references to the "**Group**" mean Chong Hing Bank Limited and its subsidiaries.

Unless otherwise specified or the context otherwise requires, references to "**U.S.$**" and to "**U.S. dollars**" are to lawful currency of the United States of America, references to "**HK$**", "**Hong Kong dollars**" and "**HK dollars**" are to the lawful currency of Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), references to "**RMB**" and "**Renminbi**" are to the lawful currency of the People's Republic of China, references to "**sterling**" and "**£**" are to the lawful currency of the United Kingdom, references to "**€**", "**EUR**" and "**Euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to the "**United States**", "**U.S.**" and "**USA**" are to the United States of America, and references to the "**PRC**" and "**Mainland China**" are to the People's Republic of China and, for the purpose of this Offering Circular, except where the context requires, do not include Hong Kong, Macau Special Administrative Region of the People's Republic of China ("**Macau**") or Taiwan.

For convenience, unless otherwise specified, certain Hong Kong dollar amounts have been translated to U.S. dollar amounts at a rate of U.S.$1.00 to HK$7.7681, being the rate of exchange for Hong Kong dollars against the U.S. dollar quoted by Reuters by close of business on 31 December 2024.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Circular and include statements regarding the intentions, beliefs or current expectations of the Issuer concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Issuer operates.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and that the Issuer's actual results of operations, financial condition and liquidity, and the development of the industries in which the Issuer operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Circular. In addition, even if the results of operations, financial condition and liquidity and the development of the industries in which the Issuer operates are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer or persons acting on its behalf may issue. The Issuer does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Offering Circular.

The following list includes some, but not necessarily all, of the factors that may cause actual results to differ from those anticipated or predicted:

- changes in the general operating environment of the Hong Kong banking industry;

- changes in general economic, market, business and regulatory conditions in Hong Kong, Mainland China, the United States and other countries;

- changes in the monetary and credit policies of the United States, Hong Kong and Mainland China;

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;

- changes in Hong Kong governmental policies, laws or regulations, in particular those affecting the banking industry in Hong Kong;

- the effects of intensifying competition in the banking industry in Hong Kong; and

- the performance of the real property and financial markets in Hong Kong.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Investment Considerations*".

In this Offering Circular, statements of, or references to, intentions of the Issuer or those of any of the directors of the Issuer are made as at the date of this Offering Circular. Any such intentions may change in light of future developments. Each of the Issuer, the Arrangers, the Agents and the relevant Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based or any change in the intentions of the Issuer, any of their respective directors or the Group.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited or reviewed consolidated financial statements of the Issuer published from time to time after the date of this Offering Circular in each case together with any audit or review reports prepared in connection therewith, and (iii) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Paying Agents set out at the end of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

The Issuer has given an undertaking to the Arrangers and the Dealers that if it has notified the Programme Dealers in writing that it intends to issue Instruments under the Programme for the time being, and if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights attaching to the Instruments or the Offering Circular otherwise containing or coming to contain an untrue statement of material fact or omitting to state a material fact necessary to make the statements contained therein not misleading, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Arrangers and the Dealers promptly of any proposal to amend, supplement or replace the Offering Circular and (iii) provide the Arrangers and the Programme Dealers with a copy of any such proposed amendment, supplement or replacement promptly prior to its publication.

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SUMMARY

INTRODUCTION

The Bank is a full-service bank which operates primarily in Hong Kong. As at the date of this Offering Circular, the Bank operates a network of 33 branches in Hong Kong, as well as 1 branch in Macau, 17 branches and sub-branches in Mainland China, including Guangzhou Branch, Beijing Branch, Shenzhen Branch, Shanghai Branch and Shantou Branch, and Guangzhou Haizhu Sub-Branch, Guangzhou Panyu Sub-Branch, Guangzhou Development Zone Sub-Branch, Foshan Sub-Branch, Shunde Sub-Branch, Nansha Sub-Branch, Guangdong-Macao In-depth Cooperation Zone in Hengqin Sub-Branch, Dongguan Sub-Branch, Zhongshan Sub-Branch, Shenzhen Nanshan Sub-Branch, Shenzhen Qianhai Sub-Branch and Shanghai Hongqiao Sub-Branch. The Bank was listed on the Main Board of the HKSE (Stock code: 01111) in July 1994. On 27 September 2021, Yue Xiu Enterprises (Holdings) Limited completed its privatisation process of the Bank, which henceforth became a wholly-owned subsidiary of the Yue Xiu Group and was delisted from the Main Board of the HKSE on 30 September 2021.

The Bank provides a wide range of corporate and personal banking services and other related financial services. Corporate and personal banking services provided by the Bank primarily include lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit card services and personal wealth management services. The Bank also provides automated digital banking services to customers. Other banking services offered by the Bank include remittance and money exchange, safe deposit boxes, auto pay and direct debit services. The Bank also engages in financial markets activities, which mainly include inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Bank and centralised cash management as well as foreign exchange trading services, forward contracts and foreign currency funding swaps. Securities business of the Bank includes securities trading, stockbroking and futures broking. The Bank also offers investment holding, insurance, other investment advisory services and property investments through certain of its wholly-owned subsidiaries.

Since its inception in 1948, the Bank has expanded steadily and believes that it has successfully established itself as a reliable and prudent bank in Hong Kong as well as the other jurisdictions in which it operates. The Bank was ranked 339th in the "Top 1000 World Banks" list issued by the British magazine "The Banker" in 2025, making it one of the top 400 banks for the seventh consecutive year. In the same year, the Bank also received the Employer of the Year – Grand, and Best Reward & Recognition Strategy Award – Grand, presented by the CTgoodjobs. Despite its relatively small size, the Bank enjoys long-standing relationships with many of its key customers and believes that it possesses a strong and stable deposit base. As at 31 December 2024, the Bank's total assets, total equity, loans and advances to customers and customer deposits amounted to HK$321,864.1 million (U.S.$41,434.1 million), HK$39,194.1 million (U.S$5,045.5 million), HK$161,250.4 million (U.S.$20,758.0 million) and HK$247,144.1 million (U.S.$31,815.3 million), respectively.

For the year ended 31 December 2024, the Bank recorded a profit for the year of HK$1,591.0 million (U.S.$204.8 million). As at 31 December 2024, the Bank's total capital ratio and loan-to-deposit ratio were 20.40% and 63.55%, respectively, and its average liquidity maintenance ratio for the year ended 31 December 2024 was 66.52%. For the year ended 31 December 2024, the Bank achieved a return on shareholders' equity of 3.55%. See "*Summary Financial Information – Other Selected Financial Data*".

The Bank maintains banking relationships with approximately 500 foreign and local banks and provides services including Hong Kong dollar payment services, trade settlement and financing, money transfers and guarantees.

COMPETITIVE STRENGTHS

The Bank believes that the following factors contribute to its competitive position:

- Uniquely Positioned and Consistently Profitable Banking Franchise
- Consistent and Stable Profitability
- Solid Asset Quality and Capital Base
- Robust and Prudent Risk Management System
- Strong Support from the Yue Xiu Group and Great Synergies with Shareholders
- Experienced Directorate and Senior Management Team

STRATEGIES

The Bank's long-term strategy is to continue to strengthen its foundation, enhance its overall competitiveness, expand its operations both locally in Hong Kong and in the PRC and provide its customers with quality and comprehensive financial and banking products and services.

The major components of the Bank's strategic plan are as follows:

- Expand the Bank's Presence, Grasp Business Opportunities and Accelerate the Business Development of the Bank in the Greater Bay Area
- Position the Bank as a Customer-Centric Bank and a Bank of Choice to the Bank's Target Customer Segments
- To Accelerate the Transformation of the Retail Network and Wealth Management Capabilities of the Bank
- Expand and Grow Selected Customer Segments and Diversity Income Streams to Achieve Steady Growth of Revenues
- Focus on Customers' Needs and Provide Customised and Comprehensive Proposals
- To Pursue a Capital-Light Strategy and Increase Non-Interest Income by Enhancing the Bank's Existing Services
- Accelerate the Digital Transformation

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "*Terms and Conditions of the Notes*" and "*Terms and Conditions of the Perpetual Capital Securities*" below shall have the same meaning in this summary.

The Issuer	Chong Hing Bank Limited.
Description	Medium Term Note and Perpetual Capital Securities Programme.
Size.	Up to U.S.$2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme. These are set out under "*Investment Considerations*" below. In addition, there are certain factors, including for example in respect of Subordinated Notes and Perpetual Capital Securities including certain risks in relation to their subordination and the circumstances in which Instrumentholders may suffer loss as a result of holding any Instruments, which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme. These are set out under "*Investment Considerations*" and include the fact that the Instruments may not be a suitable investment for all investors, certain risks relating to the structure of particular Series (as defined below) of Instruments and certain market risks.
Arrangers and Dealers . .	Chong Hing Bank Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited and CLSA Limited as Arrangers and Dealers, ABCI Capital Limited, Yue Xiu Securities Company Limited and Chong Hing Securities Limited (together with the other Dealers) as Dealers. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Programme Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "**Dealers**" are to all Programme Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Issuing and Paying Agent and Calculation Agent in respect of each Series of Instruments cleared through Euroclear or Clearstream	The Hongkong and Shanghai Banking Corporation Limited.

CMU Lodging and Paying Agent and Calculation Agent in respect of each Series of CMU Instruments	The Hongkong and Shanghai Banking Corporation Limited.
Registrar and Transfer Agent in respect of each Series of Registered Instruments	The Hongkong and Shanghai Banking Corporation Limited.
Method of Issue	The Instruments may be issued on a syndicated or non-syndicated basis. The Instruments may be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest (in respect of the Notes) or Distributions (in respect of the Perpetual Capital Securities), as applicable), the Instruments of each Series being intended to be interchangeable with all other Instruments of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest (in respect of the Notes) or Distributions (in respect of the Perpetual Capital Securities), as applicable, and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "**Pricing Supplement**").
Issue Price.	Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount.
Form of Instruments . . .	Instruments may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Instruments**"). Registered Instruments will not be exchangeable for Bearer Notes and *vice versa*. Any Subordinated Notes or Perpetual Capital Securities shall be issued in registered form only. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Instruments. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Instruments in accordance with its terms. Definitive Instruments will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. See "*Summary of Provisions Relating to the Instruments while in Global Form*".

	Registered Instruments will be represented by Certificates, one Certificate being issued in respect of each Instrumentholder's entire holding of Registered Instruments of one Series. Certificates representing Registered Instruments that are registered in the name of a nominee for one or more clearing systems are referred to as "*Global Certificates*". Registered Instruments sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Instruments that can be issued under the Programme	The Issuer may issue Senior Notes and/or Subordinated Notes and/or Perpetual Capital Securities.
Clearing Systems	The CMU, Clearstream, Euroclear and, in relation to any Tranche, such other clearing system as may be selected by the Issuer and approved by, the Issuing and Paying Agent or CMU Lodging and Paying Agent (as applicable), the Trustee and, if applicable, the Registrar.
Initial Delivery of Instruments	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Instruments may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the Monetary Authority (as defined below) as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent or CMU Lodging and Paying Agent (as applicable), the Trustee, the Registrar and the relevant Dealers. Registered Instruments that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems. "**Monetary Authority**" means the monetary authority appointed pursuant to Section 5A of the Exchange Fund Ordinance (Cap. 66) of Hong Kong or any successor thereto.
Currencies.	Subject to compliance with all relevant laws, regulations and directives, Instruments may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity.
Specified Denomination .	Definitive Instruments will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Instruments (including Instruments denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Instruments .	Fixed Rate Instruments will bear interest (in respect of the Notes) or confer the right to receive Distributions (in respect of the Perpetual Capital Securities), as applicable, payable in arrear on the date or dates in each year as specified in the relevant Pricing Supplement.
Floating Rate Instruments	Floating Rate Instruments will bear interest (in respect of the Notes) or confer the right to receive Distributions (in respect of the Perpetual Capital Securities), as applicable, determined separately for each Series as follows: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions (as defined in the Conditions); or (b) by reference to EURIBOR, HIBOR or SOFR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods (in respect of the Notes) or Distribution periods (in respect of the Perpetual Capital Securities), as applicable, will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Other Instruments	Terms applicable to high interest Instruments, low interest Instruments, step-up Instruments, step-down Instruments, reverse dual currency Instruments, optional dual currency Instruments, partly paid Note and any other type of Instrument that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Change of Interest Basis or Distribution Basis . .	Instruments may be converted from one interest basis (in respect of the Notes) or one Distribution basis (in respect of the Perpetual Capital Securities), as applicable, to another in the manner set out in the relevant Pricing Supplement.
Redemption of Senior Notes	The relevant Pricing Supplement will indicate either that the Senior Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Senior Notes will be redeemable at the option of the Issuer and/or the holders of any such Senior Note upon giving notice to the holder of any such Senior Note or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the relevant Pricing Supplement.
Redemption of Subordinated Notes. . .	The relevant Pricing Supplement issued in respect of each issue of Subordinated Notes will indicate that the Subordinated Notes cannot be redeemed prior to their stated maturity other than, with the prior approval of the Monetary Authority, at the option of the Issuer: (i) for taxation reasons;

(ii) following a Capital Event;

(iii) on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement; or

(iv) on such other terms as may be indicated in the applicable Pricing Supplement.

The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Redemption of Perpetual Capital Securities . . . . The applicable Pricing Supplement issued in respect of each issue of Perpetual Capital Securities will indicate that the Perpetual Capital Securities cannot be redeemed other than, with the prior approval of the Monetary Authority, at the option of the Issuer:

(i) for taxation reasons;

(ii) following a Capital Event; or

(iii) on such other terms as may be indicated in the applicable Pricing Supplement.

The applicable Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Status of the Senior Notes The Senior Notes issued by the Issuer and the Receipts and the Coupons relating to them will constitute direct unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Note Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness.

Status of the Subordinated Notes. . . The Subordinated Notes issued by the Issuer will constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights of the holders of the Subordinated Notes will, in the event of the Winding-Up of the Issuer (as defined in Note Condition 3(e)), be subordinated in right of payment in the manner provided in Note Condition 3(c).

The Subordinated Notes also include certain loss absorption provisions, which is further described in Note Condition 7(a).

Status of the Perpetual Capital Securities . . . . The Perpetual Capital Securities issued by the Issuer will constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights of Securityholders will, in the event of the Winding-Up of the Issuer, be subordinated in right of payment in the manner provided in Perpetual Capital Securities Condition 3(b).

The Perpetual Capital Securities also include certain loss absorption provisions, which is further described in Perpetual Capital Securities Condition 7(a).

Subordination of the Subordinated Notes. . . Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined in Note Condition 3(e)), the rights and claims of the Subordinated Noteholders to payment of principal of and interest on the Subordinated Notes, and any other obligations in respect of the Subordinated Notes, shall rank:

(i) subordinated and junior in right of payment to, and of all claims of all unsubordinated creditors of the Issuer (including its depositors) and all other Non-Preferred Creditors (as defined in Note Condition 3(e)) of the Issuer whose claims are stated to rank senior to the Subordinated Notes or rank senior to the Subordinated Notes by operation of law or contract;

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

(iii) senior in right of payment to, and of all claims of:

(A) the holders of any other subordinated instruments or other obligations issued, entered into, or guaranteed by the Issuer that is specified in the applicable Pricing Supplement as ranking junior to the Subordinated Notes and any other instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Subordinated Notes by operation of law or contract but senior to the holders of Junior Obligations; and

(B) the holders of Junior Obligations and as may be further specified in the Pricing Supplement,

in each case in the manner provided in the Trust Deed.

Subordination of the Perpetual Capital Securities . . . . Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined in Perpetual Capital Securities Condition 3(d)) of the Issue, the rights and claims of the Securityholders to payment of principal and Distributions on the Perpetual Capital Securities, and any other obligations in respect of the Perpetual Capital Securities, shall rank:

(i) subordinated and junior in right of payment to, and of all claims of:

(a) all unsubordinated creditors of the Issuer (including its depositors); and

(b) any holders of Tier 2 Capital Instruments of the Issuer;

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

	(iii) senior in right of payment to, and of all claims of the holders of Junior Obligations and as may be further specified in the applicable Pricing Supplement, in each case in the manner provided in the Trust Deed.
Set-off and Payment Void in respect of Subordinated Notes. . .	See "*Terms and Conditions of the Notes – Status, Subordination and Qualification of the Subordinated Notes – Set-off and Payment Void in respect of Subordinated Notes*".
Negative Pledge	Applicable to Senior Notes only. See "*Terms and Conditions of the Notes – Negative Pledge in respect of Senior Notes only*".
Events of Default in respect of the Senior Notes	Applicable to Senior Notes only. See "*Terms and Conditions of the Notes – Events of Default and Default – Senior Notes*".
Default in respect of the Subordinated Notes. . .	Applicable to Subordinated Notes only. See "*Terms and Conditions of the Notes – Events of Default and Default – Subordinated Notes*".
Default in respect of the Perpetual Capital Securities	Applicable to Perpetual Capital Securities. See "*Terms and Conditions of the Perpetual Capital Securities – Default*".
Cross Acceleration	Applicable to Senior Notes only. See the relevant sub-condition under "*Terms and Conditions of the Notes – Events of Default and Default – Senior Notes*".
Loss Absorption upon a Non-Viability Event in respect of Subordinated Notes and Perpetual Capital Securities	The applicable Pricing Supplement issued in respect of each issue of Subordinated Notes or the Perpetual Capital Securities, as applicable, may provide that the Loss Absorption Option is a Write-off in accordance with Note Condition 7(a) for Subordinated Notes issued by the Issuer or Perpetual Capital Securities Condition 7(a) for Perpetual Capital Securities issued by the Issuer, as applicable. See "*Terms and Conditions of the Notes – Non-Viability Loss Absorption and Hong Kong Resolution Authority Power in respect of Subordinated Notes*" in respect of the Subordinated Notes and "*Terms and Conditions of the Perpetual Capital Securities – Non-Viability Loss Absorption and Hong Kong Resolution Authority Power in respect of Perpetual Capital Securities*" in respect of the Perpetual Capital Securities. "**Non-Viability Event**" means the earlier of: (i) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or (ii) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

Consequence of Non-Viability Loss Absorption in respect of the Subordinated Notes	Once the outstanding principal amount of, and any accrued but unpaid interest in respect of the Subordinated Notes has been Written-off, the relevant amount(s) will not be restored in any circumstances, including where the relevant Non-Viability Event ceases to continue. No Noteholder may exercise, claim or plead any right to any amount that has been Written-off, and each Noteholder shall, by virtue of its holding of any Subordinated Notes, be deemed to have waived all such rights to such amount that has been Written-off. Any Write-off pursuant to this provision will not constitute a Default under the Subordinated Notes. Concurrently with the giving of the Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that: (a) a similar notice be given in respect of other Subordinated Capital Instruments (as defined in Note Condition 7(a)) in accordance with their terms or any applicable laws and regulations; and (b) concurrently and rateably with the Write-off of the Subordinated Notes, the aggregate principal amount of such other Parity Capital Instruments (as defined in Note Condition 7(a)) is subject to a Write-off on a *pro rata* basis with the Subordinated Notes.
Consequence of Non-Viability Event in respect of Perpetual Capital Securities	Once the outstanding principal amount of, and any accrued but unpaid Distribution under, a Perpetual Capital Security has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non- Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of its holding of any Perpetual Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off. Once the principal amount of, and any accrued but unpaid Distribution under, a Perpetual Capital Security has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of its holding of any Perpetual Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off. Concurrently with the giving of the Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that: (a) a similar notice be given in respect of other Subordinated Capital Instruments (as defined in Perpetual Capital Securities Condition 7(a)) in accordance with their terms or any applicable laws and regulations; and (b) concurrently and rateably with the Write-off of the Perpetual Capital Securities, the aggregate principal amount of such other Parity Capital Instruments (as defined in Perpetual Capital Securities Condition 7(a)) is subject to a Write-off on a *pro rata* basis with the Perpetual Capital Securities.

Hong Kong Resolution Authority Power in respect of Subordinated Notes and Perpetual Capital Securities . . . .

Notwithstanding any other term of the Subordinated Notes or the Perpetual Capital Securities, including without limitation Note Condition 7(a) or Perpetual Capital Securities Condition 7(a), as applicable, or any other agreement or arrangement, each holder of such Subordinated Notes or Perpetual Capital Securities, as applicable shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having Subordinated Notes or Perpetual Capital Securities, as applicable held by each being written off, cancelled, converted or modified, or to having its form changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(i) the reduction or cancellation of all or a part of the outstanding principal amount of, or interest on, the Subordinated Notes or Distribution on the Perpetual Capital Securities, as applicable;

(ii) the conversion of all or a part of the outstanding principal amount of, or interest on, the Subordinated Notes or Distribution on the Perpetual Capital Securities, as applicable into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Subordinated Notes or the Perpetual Capital Securities, as applicable; and

(iii) the amendment or alteration of the maturity of the Subordinated Notes or the Perpetual Capital Securities, as applicable or amendment or alteration of the amount of interest payable on the Subordinated Notes or the Perpetual Capital Securities, as applicable, or the date on which the interest becomes payable, including by suspending payment for a temporary period, or any other amendment or alteration of the Conditions.

With respect to (i), (ii) and (iii) above, references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the redemption date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the holders of Subordinated Notes under the Subordinated Notes or Perpetual Capital Securities under the Perpetual Capital Securities, as applicable and the Trustee under the Subordinated Notes or the Perpetual Capital Securities, as applicable and the Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

No repayment of the outstanding principal amount of the Subordinated Notes or the Perpetual Capital Securities, as applicable or payment of interest on the Subordinated Notes or the Perpetual Capital Securities, as applicable shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Subordinated Notes, the Issuer shall provide a written notice regarding such exercise of the Hong Kong Resolution Authority Power to the holders of Subordinated Notes in accordance with Note Condition 17 or to the holders of the Perpetual Capital Securities in accordance with Perpetual Capital Securities Condition 16 and to the Trustee in writing not more than two Hong Kong Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power.

Neither the reduction or cancellation, in part or in full, of the outstanding principal amount of, or interest on the Subordinated Notes or Distribution on the Perpetual Capital Securities, as applicable, the conversion thereof into another share, security or other obligation of the Issuer or another person, or any other amendment or alteration of the Conditions or any other modification or change in form of the Subordinated Notes or the Perpetual Capital Securities as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Subordinated Notes shall constitute an Event of Default under Note Condition 10 and with respect to the Perpetual Capital Securities shall constitute a Default under Perpetual Capital Securities Condition 11.

Ratings . . . . Moody's is expected to rate Senior Notes issued under the Programme "Baa2" and Perpetual Capital Securities issued under the Programme "Ba3". Fitch is expected to rate Senior Notes issued under the Programme "BBB(EXP)". Tranches of Instruments to be issued under the Programme will be rated or unrated. Where a Tranche of Instruments is to be rated, such rating will be specified in the relevant Pricing Supplement.

Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Instruments already issued.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Withholding Tax	All payments of principal and interest (in respect of the Notes, the Receipts and the Coupons) or Distributions (in respect of the Perpetual Capital Securities), as applicable, will be made free and clear of withholding taxes of Hong Kong, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes – Taxation*" and "*Terms and Conditions of the Perpetual Capital Securities – Taxation*".
Governing Law	Hong Kong law.
Listing	Application may be made for the listing of the Instruments on the HKSE. The Instruments may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Instruments may also be issued. The applicable Pricing Supplement will state whether or not the relevant Instruments are to be listed and, if so, on which stock exchange(s). Instruments listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Legal Entity Identifier . .	549300UE27D3HDTZET39.
Capital Treatment of the Subordinated Notes and the Perpetual Capital Securities	The applicable Pricing Supplement issued in respect of each issue of Subordinated Notes or the Perpetual Capital Securities, as applicable, may provide that the Subordinated Notes will qualify in full as Tier 2 capital of the Issuer or that the Perpetual Capital Securities will qualify as Additional Tier 1 capital of the Issuer, as applicable, in accordance with the requirements of the Banking (Capital) Rules (Cap. 155L) of Hong Kong.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore and the PRC, see "*Subscription and Sale*" below.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the audited consolidated financial information and other selected financial data relating to the Bank as at and for the years ended 31 December 2022, 2023 and 2024, which have been extracted from and should be read in conjunction with, the Bank's audited consolidated financial statements for the years ended 31 December 2023 and 2024 respectively, including the notes thereto (the "Audited Financial Statements"), which have been audited by Ernst & Young. The Audited Financial Statements are included elsewhere in this Offering Circular.

*The Bank has prepared and presented the Audited Financial Statements in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") applicable as at 31 December 2022, 2023 and 2024, respectively.*

The Bank's consolidated financial results for any past period are not and should not be taken as an indication of the Bank's performance, financial position and results of operations in future years. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		
	2022	**2023**	**2024**
	(HK$'000, except per share amounts)		
Interest income	7,404,760	12,575,378	12,672,387
Interest expense	(3,420,565)	(7,596,070)	(7,836,278)
Net interest income	3,984,195	4,979,308	4,836,109
Fee and commission income	559,929	387,323	430,753
Fee and commission expenses	(81,964)	(97,447)	(99,664)
Net fee and commission income	477,965	289,876	331,089
Net income from trading and investments	466,438	552,226	751,832
Other operating income	175,073	181,466	154,932
Operating expenses	(1,966,265)	(1,930,031)	(2,016,048)
Operating profit before impairment allowances	3,137,406	4,072,845	4,057,914
Net impairment losses on financial assets	(1,979,761)	(2,454,126)	(2,365,492)
Operating profit after impairment allowances	1,157,645	1,618,719	1,692,422
Net losses on disposal of equipment	(527)	(2,272)	(384)
Net losses on fair value adjustments on investment properties	(610)	(5,570)	(33,148)
Share of profits (losses) of associates	(48,781)	(43,003)	60,949
Profit before taxation	1,107,727	1,567,874	1,719,839
Taxation	(121,830)	(126,104)	(128,824)
Profit for the year			
– Attributable to equity owners of the Bank	985,897	1,441,770	1,591,015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December		
	2022	**2023**	**2024**
		(HK$'000)	
Assets			
Cash and balances and placements with banks	40,369,605	65,508,631	92,849,713
Derivative financial instruments	1,610,386	1,405,454	2,132,987
Investments in securities	65,748,813	69,291,896	57,595,849
Advances and other accounts	170,407,622	167,250,753	166,867,449
Tax recoverable	104,389	97,550	13,872
Interests in associates	437,689	372,868	406,871
Investment properties	319,764	312,436	411,624
Property and equipment	982,682	1,044,794	893,404
Deferred tax assets	15,644	1,714	5,028
Intangible assets	814,263	757,648	687,335
Total assets	280,810,857	306,043,744	321,864,132
Liabilities			
Deposits and balances with banks and other financial institutions	9,140,137	16,545,976	17,444,171
Financial assets sold under repurchase agreements	4,504,613	–	–
Deposits from customers	223,488,227	239,281,407	247,144,076
Derivative financial instruments	1,300,681	919,905	1,232,261
Other accounts and accruals	4,556,803	5,154,691	5,620,305
Current tax liabilities	13,538	19,895	79,430
Certificates of deposit	–	387,415	5,094,471
Loan capital	1,746,101	3,384,753	5,958,446
Deferred tax liabilities	77,904	76,279	96,886
Total liabilities	244,828,004	265,770,321	282,670,046
Equity attributable to owners of the Bank			
Share capital	17,030,884	20,030,884	21,030,884
Additional equity instruments	5,427,996	5,427,996	2,316,681
Reserves	13,523,973	14,814,543	15,846,521
Total equity	35,982,853	40,273,423	39,194,086
Total liabilities and equity	280,810,857	306,043,744	321,864,132

OTHER SELECTED FINANCIAL DATA

	As at/for the year ended 31 December		
	2022	**2023**	**2024**
Profitability Indicators			
Return on shareholders' equity[1]	2.28%	3.52%	3.55%
Net interest margin	1.53%	1.74%	1.63%
Non-interest income to operating income			
Cost to income ratio	38.53%	32.15%	33.19%
Average liquidity maintenance ratio	51.61%	59.64%	66.52%
Capital Adequacy Ratio			
Total capital ratio[2]	17.59%	19.64%	20.40%
Tier 1 capital ratio[2]	16.00%	17.38%	16.90%
Common Equity Tier 1 capital ratio	13.38%	14.87%	15.82%
Asset Quality Indicator			
Non-performing loan ratio	2.67%	2.79%	2.84%
Other indicators			
Loan to deposit ratio	70.92%	66.42%	63.55%

Notes:

(1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.

(2) The ratio is calculated on a consolidated basis in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the following considerations, in addition to the other information contained in this Offering Circular, before investing in the Instruments. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition or results of operations, and could affect the Bank's ability to make payments of principal, premium and/or interest or distribution (as the case may be) (if any) under the Instruments. The following considerations and uncertainties described below may not be the only ones which the Group faces. Additional considerations and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Instruments.

RISKS RELATING TO THE BANK

The Group may be affected by an economic downturn in Hong Kong and around the world

The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong and around the world. The Group's business is inherently subject to general macroeconomic conditions and policies and market fluctuations, including financing cost and the volatility of interest rates, inflation, monetary and fiscal policies and other macroeconomic policies. As a result, any downturn in the Hong Kong and global economy may adversely affect the Group's business, financial condition and the results of its operations.

Unfavourable financial or economic environments, including the continued global financial uncertainties, have had and may continue to have an adverse impact on investors' confidence, global financial markets and the Hong Kong and global economy. In particular:

- The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs and other barriers on certain industries and products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. There are uncertainties as to when and whether the trade disputes will be resolved and the trade barriers lifted. The trade war between the United States and China has resulted in disruption to global trade flows, global production and supply chains; and it also increased volatility in the financial markets around the world. In addition, the European Union ("**EU**")-China relations have become increasingly complex with bilateral relations marked by challenges related to market access and investment as well as key foreign and security policy issues. The EU has sought to take steps to remedy what it sees as an uneven playing field, by reducing critical dependencies and vulnerabilities in its supply chains.

- In early 2023, the global financial markets have experienced further volatility with the collapse of mid-size Silicon Valley Bank, Signature Bank and First Republic Bank in the United States, as well as the collapse of global financial institution Credit Suisse, which has resulted in tightened credit standards, reduced capital investment and higher uncertainty in the global macroeconomic environment. In addition, the ongoing corporate deleveraging efforts by the PRC government since 2017 and the increased amount of corporate defaults over recent years, particularly in the PRC real estate sector, have contributed to further volatility in financial markets.

- The economic effects arising from the COVID-19 have significantly affected global financial, foreign exchange, commodity and energy markets, along with the resulting significant government support measures and negative impacts to government budgets during and after the COVID-19 pandemic. Whether and to what extent countries and territories will be able to return to pre COVID-19 economic levels remain uncertain.

- Ongoing impacts of wars and geographical conflicts around the world had led to volatility in economy and contributed to the increase in inflation. In particular, extensive financial, trade, transport, and immigration sanctions have been imposed by the UK, the EU and U.S., among others, against Russian individuals and companies in light of the Russia-Ukraine geopolitical conflicts. Increasing tension between the U.S. and China may further contribute to the dynamism of the sanctions environment. The sanctions regimes put in place since the Russia-Ukraine geopolitical conflicts have led to rising prices of energy, food and other commodities, and consequently a historical level of high inflation globally. An armed conflict between Israel and Palestine has been evolving in and around the Gaza Strip since October 2023, which may lead to a wider conflict on the Middle East. As a result, the aggravated geopolitical tension brings uncertainty to the global economy as well as significant volatilities in the global financial market.

- Central banks of some jurisdictions, including the Federal Reserve Board of Governors of the United States, and Hong Kong Monetary Authority have also accelerated their shifts in monetary policies and increased interest rates in response to sustained inflationary pressure. There can be no assurance that monetary and fiscal policy measures adopted by central banks or national governments will have the intended effects or that a global economic downturn will not occur or market volatilities will not persist. There are ongoing concerns relating to the political gridlock in the United States over government spending and debt levels, the consequences for economic growth and investor confidence in the United States.

- There are also ongoing impacts from the prolonged period of uncertainty around the exit of the United Kingdom from the European Union ("**Brexit**"). On 31 January 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement (the "**Withdrawal Agreement**") signed in October 2019. As agreed in the Withdrawal Agreement, a transition period was implemented until 31 December 2020, during which time EU laws and regulations continued to apply broadly as before. The UK-EU Trade and Cooperation Agreement ("**TCA**") was finalised on 24 December 2020 and came into force from 1 January 2021. The TCA sets out all aspects of the new UK-EU relationship, such as trade, security, areas of ongoing collaboration/cooperation and governance. Given the lack of precedent, the long-term impact of Brexit remains uncertain and will depend on the implementation of the final terms agreed between the United Kingdom and the European Union in the TCA as well as on the United Kingdom's ability to secure favourable trade and investment terms with countries outside the European Union.

If there is any renewed economic downturn or slowdown in global economic recovery, there can be no assurance that the Hong Kong economy or the Group's business, financial condition and results of operations will not be adversely affected. The Issuer expects the continued growth in the Hong Kong economy to depend in part upon the economic performance of the United States and the PRC, as well as certain other developed countries. There can be no assurance that future global events will not have an adverse effect on the Hong Kong economy and the Group.

Competition in the Hong Kong and PRC banking industries

The Bank is subject to significant competition from many other banks and financial institutions, including competitors which have significantly greater financial and other capital resources, larger market share and greater name recognition than the Bank, as well as existing and/or emerging virtual banks. In particular, the banking and financial services industry in Hong Kong is a mature market and, according to statistics published by the Monetary Authority in April 2025, 32 Hong Kong incorporated licensed banks and 117 banks incorporated outside of Hong Kong are competing for a customer population of approximately 7.5 million people. Many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Bank. Consequently, there is a crowded market, especially for retail banking products such as investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses. This has been, and may be, further exacerbated by the grant of virtual banking licences, the entry and the increasing presence of virtual banks and the recognition of virtual banking companies as financial institutions in the markets in which the Bank operates. The increasing competition in the past few years has had an adverse impact on the Bank's pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending business has become very aggressive. There can be no assurance that the increased competition will not have a material adverse effect on the Bank's business, financial condition or results of operations.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. In 2009, with interest rates at an extremely low level, a significant portion of new-home mortgage loan rates charged by banks in Hong Kong was HIBOR based. As at 31 December 2024, the standard rate the Bank charged on its new-home mortgage loans was up to 1.9% below the prime lending rate or 1.35% basis points above HIBOR. Competition among banks in Hong Kong for home mortgage loans could result in further reductions in home mortgage interest rates. Such reductions could have an adverse effect on the Bank's business, financial condition or results of operations.

The banking industry in the PRC is also highly competitive. Historically, the market has been dominated by the large state-owned commercial banks, which have long operating histories, well-established branch networks, large customer bases and better brand recognition compared to the Bank. In addition, the Bank also faces increasing competition from virtual banks in the PRC. Moreover, the banking industry in the PRC has been facing more challenges in recent years as the PRC government implemented a series of measures to liberalise the banking industry. Following the PRC's accession to the World Trade Organization, a number of foreign banks have received authorisation from the PRC government to, from five years after accession, provide RMB-denominated banking and financial services ("**RMB services**") to PRC domestic enterprises and individuals. The Closer Economic Partnership Agreement with the PRC ("**CEPA**"), which allows Hong Kong banks to operate in the PRC, has also increased competition in the PRC market. Since April 2007, the PRC government has begun granting approvals for locally incorporated banking licences for a number of foreign banks which allow them to compete with PRC domestic banks an equal footing, thereby effectively removing regulatory restrictions on the geographical presence, customer base and operating licences of foreign banks. In May 2019, the China Banking and Insurance Regulatory Commission (the "**CBIRC**") removed the single shareholding cap on domestic banks. Accordingly, the Bank expects a further increase in competition in the PRC market from both existing local Chinese banks and foreign banks entering the PRC market. While the Bank continues to take its cross-border operations and expansion of PRC operations as the key development strategies, there can be no assurance that the Bank will maintain its current position or continue to develop its business successfully in the PRC if, as expected, competition in the banking sector in the PRC intensifies as a result of these latest changes in the regulatory environment in the PRC. The increased competition in the banking industries in Hong Kong and the PRC may adversely affect the Bank's business and prospects, results of operations and financial condition by potentially:

- reducing its market share in the principal products and services that the Bank offers;
- reducing the growth of its loan and deposit portfolios and other products and services;
- reducing its net interest income and net interest margin;
- reducing its fee and commission income;
- increasing its non-interest expenses; and
- increasing competition for qualified managers and employees.

The introduction of CEPA has also enabled PRC banks to relocate certain operations, for example, the handling of international securities and bonds, as well as foreign exchange trading centres, to Hong Kong. Under CEPA, PRC banks are encouraged to expand their business through merger and acquisition ("**M&A**") activities. The entry of PRC banks into the Hong Kong market via M&A activities is likely to result in increased competition in the banking sector and there can be no assurance that the Bank's business will not be affected by such increased competition.

Expansion of the Bank's business in Hong Kong and the PRC

The Bank intends to continue growing its business operations in Hong Kong. In particular, due to the maturity of the Hong Kong banking sector and increasing competition, the Bank intends to expand its range of products and services to diversify its business portfolio in order to maintain its competitive edge. Specifically, the Bank intends to implement customer structure optimisation to target the younger age demographic in its development of new products and services, including the development and optimisation of online and mobile banking functions. In 2021, the Bank launched a new core banking system with the aim to promote digital development by integrating online and offline financial services. The Bank also plans to further expand its operations in the PRC by developing a wider range of products and services offered by its branches in Guangzhou, Beijing, Shenzhen, Shanghai and Shantou, its twelve sub-branches and by establishing more cross-location sub-branches in other cities covering the Guangdong-Hong Kong-Macao Greater Bay Area (the "**Greater Bay Area**") and facing the whole country. See "*Description of the Bank – PRC and Macau Operations*" for a breakdown of the Bank's branches and sub-branches outside of Hong Kong. Expansion of the Bank's business activities exposes the Bank to certain risks and challenges, including the following:

- the Bank may not have sufficient experience or expertise in certain new products and services and may not be able to compete effectively in these areas;
- the Bank's new products and services may not be well-received by its customers or meet the Bank's expectations for profitability;
- the Bank may face difficulties in recruiting experienced professionals or qualified personnel to offer new products and services, due to competition in the labour market;
- the Bank may fail to obtain regulatory approval for its new products or services where necessary; and
- the Bank may not be successful in enhancing its risk management capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to manage integration and expansion effectively and achieve the intended results, the Bank's business, financial condition and results of operations may be adversely affected.

Exposure to the Hong Kong property market

The Bank has higher exposure to property-related usage as compared to other industries. As at 31 December 2022, 2023 and 2024, loans and advances to customers for property-related usage in Hong Kong accounted for 11.8%, 10.9% and 12.7% of the Bank's total loans and advances to customers, respectively.

Hong Kong property prices and rents for residential, commercial and industrial properties, have shown significant uplift started from 2000. Since 2010, the Hong Kong government and the Hong Kong Monetary Authority ("**HKMA**") have introduced a series of residential property cooling measures, such as Special Stamp Duty ("**SSD**") for residential property, Buyer's Stamp Duty ("**BSD**") and reduced loan-to-value borrowings limits.

However, as a result of the economic downturn and uncertainties after the COVID-19 pandemic, falling property prices and reduced property transactions, the SSD and BSD were abolished in April 2024. There is no assurance that the Hong Kong government will not re-introduce tightening measures in the future when the Hong Kong property market conditions improve, which may in turn have a negative impact on the Group's asset quality or an adverse effect on its business.

The trend of property prices in the Hong Kong property market depends on various factors which are beyond the Group's control, including when the Hong Kong government will relax its cooling measures, the Hong Kong dollar interest rate movements (largely dependent on the timing and pace of United States interest rate hikes), capital outflow pressures in relation to global competitive monetary easing and currency depreciation, growth prospects of the Hong Kong economy, economic, Renminbi and property market developments in the PRC and changes in the property demand/supply balance in the Hong Kong market. Any substantial decreases in property values could adversely affect the Group's business and financial condition and/or results of operations. In order to control the concentration risk in this segment, the Group has taken various measures, including setting portfolio limits. However, there can be no assurance that the downturn in property market in Hong Kong or the PRC will not have a negative impact on the Group's asset quality or an adverse effect on the Group's business.

The Bank's banking business is exposed to systemic risk resulting from failures by banks, other financial institutions and corporates.

Within the financial services industry, the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions as the commercial soundness of many financial institutions may be closely correlated as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk", and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Bank interacts on a daily basis. The recent financial markets turmoil with the collapse of Silicon Valley Bank, followed by Signature Bank, the crisis of Credit Suisse and the seizure of First Republic Bank, has resulted in higher uncertainty in the financial services industry and has raised questions about the viability of other financial services firms and possibility of broader systemic risk. In addition, the response by government regulators and central banks to recent financial markets turmoil, including the response by Swiss authorities to the collapse of Credit Suisse and the seizure of First Republic Bank by U.S. regulators, has caused market participants to question how regulators and central banks will utilise resolution authority powers with respect to financial institutions or otherwise respond in the event of further turbulence or crisis in financial markets. In turn, the actual or perceived soundness of these financial institutions could have an adverse effect on the Bank's ability to raise new funding, including regulatory capital, and could have a material impact on the Bank's business, financial condition, results of operations and prospects.

Ability to maintain the quality of the Bank's credit portfolio

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. The Bank's credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances. The Bank is also exposed to other credit risks with respect to its investments in debt securities and other exposures arising from its trading activities including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties. The sustainability of the Bank's growth depends largely on its ability to effectively manage its credit risk and maintain the quality of its loan portfolio. A number of factors will affect the Bank's ability to control and reduce impaired and restructured loans. Some of these, including developments in the Hong Kong economy, movements in the global economy, global competition, interest rates and exchange rates are not within the Bank's control.

Although the Bank has in place credit risk management policies, procedures and systems and is constantly focusing its efforts on tightening its credit appraisal systems, credit risk monitoring and management systems and improving collections on existing impaired assets, there can be no assurance that the Bank will be successful in its efforts to control and reduce its level of impaired assets, that the overall quality of its loan portfolio will not deteriorate in the future or that the business of the Bank's borrowers will grow in line with the economy. If the Bank is not able to control and reduce its impaired loans, or if there is a further significant increase in its restructured loans, the Bank's business, future financial performance and the price of the Instruments could be adversely affected.

The Bank's gross impaired advances on a consolidated basis as at 31 December 2024 were HK$5,119.1 million (U.S.$659.0 million), which represented 3.2% of the Bank's gross advances to customers, an increase from HK$4,667.5 million (U.S.$600.9 million) as at 31 December 2023 and an increase from HK$4,478.6 million (U.S.$576.5 million) as at 31 December 2022. Whilst the Bank continues to pursue recovery of these impaired loans, there is no assurance that the Bank will ultimately recover any amount of the impaired loans.

There is also no assurance that there will be no deterioration in provisions for loan losses as a percentage of impaired loans or otherwise, that the percentage of impaired loans that the Bank will be able to recover will be similar to the Bank's past experience of recoveries of impaired loans or that upon enforcement, the value of any collateral or guarantee securing the Bank's advances will be sufficient. In the event of any deterioration in the Bank's asset portfolio, there could be an adverse impact on the Bank's business, future financial performance, shareholders' funds and the price of the Instruments.

In addition, the Bank may decide to restructure certain of its impaired loans. In such restructuring, the Bank usually agrees to set payments of principal and/or interest at a relatively low level for a certain time frame followed by larger payments in later periods to match the Bank's expectation of a borrower's ability to service the debt. The relatively low payments improve the likelihood that a restructured loan will be categorised as performing during the period of such payments. However, future higher payments may cause the loan to again become impaired if the borrower is unable to make such larger payments in the later periods. If a significant number of the Bank's customers are unable to make larger payments for their respective restructured loans, such restructured loans may become impaired, thereby requiring additional provisions and could have a material adverse effect on the Bank's ability to make payments under the Instruments.

Adequacy of allowance for advance losses

In accordance with guidelines set by the Monetary Authority, the Bank classifies its loans and advances into one of the following five classification categories corresponding to levels of risk: "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". See "*Selected Statistical and Other Information*". The classification of advances into one of these categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default, taking into account the number of months payment is in arrears, the type of advance, the tenor of the advance and the type and level of collateral coverage, the likelihood of collection, sufficiency of the net realisation value of the security to cover the amount of principal and accrued interest, the number of days the payment of principal or interest has fallen overdue, and the expectations for recovery or performance.

The laws, regulations and guidelines governing the banking industry in Hong Kong differ from those applicable in various other countries in certain respects and may result in particular advances being classified at a different time or being classified in a category reflecting a different degree of risk than would be required in other countries. In addition, the typical procedures for writing off loans in Hong Kong may result in loans being written off at a time different from that which would be required in certain other countries. Banks in Hong Kong may have different sets of criteria for recognition of accrued interest on loans which may be treated differently in certain other countries. While the Bank believes that its credit policies are more prudent than those that are required under Hong Kong laws and regulations, the Bank is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision*".

Short-term funding and its impact on the Bank's liquidity

Most of the Bank's funding requirements are met through short-term funding sources, primarily in the form of customer deposits, including savings, current, short-term and structured term deposits and, to a much smaller extent, interbank deposits. As at 31 December 2024, substantially most of the Bank's total customer deposits had remaining maturities of one year or less or were payable on demand. Accordingly, the maturity profile of the Bank's assets and liabilities shows a negative gap in the short term. The negative gap has arisen mainly because the Bank's deposits, which are met through short-term funding sources (primarily in the form of deposits) and other liabilities, are of shorter average maturity than its loans and investments, which have medium- or long-term maturities, thereby creating the potential for funding mismatches. Historically, savings, current and a substantial portion of term deposits which used to roll over upon maturity have been a stable source of long-term funding. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, the Bank's liquidity position would be adversely affected and the Bank may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits.

On 1 January 2011, the Deposit Protection Scheme (Amendment) Ordinance 2010 (the "**Amendment Ordinance**") came into effect upon expiration of the guarantee. Amongst other things, the Amendment Ordinance increases the Deposit Protection Scheme limit established under the Deposit Protection Scheme Ordinance from HK$100,000 to HK$500,000. On 24 March 2016, the Deposit Protection Scheme (Amendment) Ordinance 2016 (the "**2016 Amendment Ordinance**") came into effect. Amongst other things, a gross pay-out approach is adopted for the determination of compensation under the Deposit Protection Scheme in case the scheme is triggered. Under this approach, any compensation paid to depositors is determined on the basis of their aggregate protected deposits held with a failed bank (up to HK$500,000 per depositor) without deducting the amount of liabilities owed by those depositors to the same bank. However, there can be no assurance that the level of customer deposits of the Bank will not be adversely affected by the expiration of the guarantee, the future withdrawal of or any other changes to the Deposit Protection Scheme. On 12 July 2024, the Deposit Protection Scheme (Amendment) Ordinance 2024 (the "**2024 Amendment Ordinance**") was passed and promulgated to implement various measures to enhance the Deposit Protection Scheme. The 2024 Amendment Ordinance came into effect in two phases. On 1 October 2024, amongst other things, the protection limit under the Deposit Protection Scheme increased from HK$500,000 to HK$800,000 per depositor. On 1 January 2025, other enhanced depositor protection mechanisms came into operation, including enhanced coverage to affected depositors in the event of a bank merger or acquisition.

The statutory liquidity maintenance ratio ("**LMR**") requirement came into effect on 1 January 2015. The Bank holds sufficient liquid assets, which consist of cash, short-term funds, exchange fund bills, and notes to fulfil the LMR. In times of liquidity stress, the stock of liquid assets can be easily and immediately converted into cash to meet unexpected and material cash outflows. The Bank's average monthly LMR for the year ended 31 December 2024 was 66.52% whilst the statutory average monthly LMR requirement is currently 25%.

The Monetary Authority acts as a lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. Although the Hong Kong government has in the past taken measures on a case-by-case basis to maintain or restore public confidence in individual banks with an isolated liquidity crisis, there can be no assurance that the Monetary Authority will provide such assistance in the future or that it would elect to provide such assistance in the event of a liquidity crisis in respect of the Bank.

If the Bank fails to maintain its expected growth rate in deposits or if a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the liquidity position, financial condition and results of operations of the Bank may be materially and adversely affected and the Bank may need to seek more expensive sources of funding to meet its funding requirements.

Currency risks

The majority of the Bank's revenues are generated in Hong Kong dollars. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future.

In order to ensure continued liquidity of the Hong Kong dollar, the Monetary Authority has entered into bilateral repurchase agreements with the central banks or monetary authorities of Australia, the PRC, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong government has in the past expressed its commitment to maintaining exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. However, there can be no assurance that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or the automatic interest rate adjustment mechanism will help to maintain adequate liquidity for the Hong Kong dollar.

In addition, the value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC, international political and economic conditions and many other factors. In August 2015, the People's Bank of China ("**PBoC**") implemented changes to the way it calculates the midpoint against the U.S. dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among other changes that may be implemented, may increase the volatility in the value of the Renminbi against other currencies.

The Bank's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the U.S. dollar or any significant change in the exchange rate of the U.S. dollar or Renminbi against the Hong Kong dollar.

Interest rate risks

As with other banks, net interest income is a significant factor in determining the Bank's overall financial performance. For the years ended 31 December 2022, 2023 and 2024, the Bank's net interest income amounted to HK$3,984.2 million (U.S.$512.9 million), HK$4,979.3 million (U.S.$641.0 million) and HK$4,836.1 million (U.S.$622.6 million), respectively. Changes in market interest rates affect the interest received on the Bank's interest-earning assets and the interest paid on the Bank's interest-bearing liabilities. The differences in timing and levels of changes in interest rates can result in an increase in interest expense relative to its interest income, which may lead to a reduction in the Bank's net interest income. Moreover, the Bank is subject to interest rate risk as a result of mismatches in the pricing and duration of assets and liabilities, as a large portion of its funding comes from demand deposits.

Interest rates in Hong Kong are sensitive to factors over which the Bank has no control, including, among others:

- interest rates in the United States;
- liquidity of the domestic interbank market and the international capital markets;
- domestic and international economic and political conditions; and
- competition for loan demand.

In the event that interest rates move against the Bank's position, it may adversely affect the Bank's business, financial condition or results of operations. Interest rates in Hong Kong have remained relatively low and have fallen steadily in recent years, a situation which has had a negative impact on the Bank's net interest income. There can be no assurance that interest rates will not rise or fall or become volatile or that changes in interest rates will not be frequent.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio even though most of such decline in value would not affect the Bank's operating income as most of the securities are swapped into floating rate. A sustained increase in interest rates could also raise the Bank's funding costs without a proportionate increase in loan demand, if at all. Rising interest rates would therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in Hong Kong or the PRC and the financial condition and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration in the Bank's credit portfolio.

Interest rates in Hong Kong, PRC and other regions are sensitive to factors over which the Bank has no control, including, but not limited to, movements in RMB deposit rates and Prime Rate and HIBOR movements in Hong Kong, lending rates in the PRC, the PRC's monetary policies, regulations and economic conditions and domestic and international economic and political conditions having an impact on local and international interest rates. Any significant volatility and abrupt movements in interest rates could adversely affect the Bank's business, financial condition and results of operations.

Uncertainties in the current credit and capital markets

The Bank holds a portfolio of debt securities and certificates of deposit with different investment grades. The Bank has analysed its investments in debt securities according to the designation of external credit institutions such as Moody's. As at 31 December 2024, the Bank had a gross carrying amount of HK$52,658.6 million (U.S.$6,778.8 million), of which HK$1,784.7 million (U.S.$229.8 million) was rated "Aaa", HK$12,418.2 million (U.S.$1,598.6 million) was rated between "Aa1" to "Aa3", HK$29,597.8 million (U.S.$3,810.2 million) was rated between "A1" to "A3", HK$7,413.6 million (U.S.$954.4 million) was rated lower than "A3" and HK$1,444.3 million (U.S.$185.9 million) was unrated. Given the uncertainties in the current credit and capital markets, there can be no assurance that the Bank will not suffer any future marked-to-market losses on its original investment amount in its portfolio of debt securities.

Exposure to the PRC and Macau markets

As at the date of this Offering Circular, the Bank has six branches outside of Hong Kong located in Guangzhou, Beijing, Shenzhen, Shanghai, Shantou and Macau and twelve sub-branches. See "*Description of the Bank – PRC and Macau Operations*" for a breakdown of the Bank's branches and sub-branches outside of Hong Kong. Due to the relatively small number of branches and sub-branches, the Bank's exposure to the PRC and Macau markets is limited. The Bank's banking activities in the PRC and Macau are conducted with the following counterparties:

- central government, central government-owned entities and their subsidiaries and joint ventures;
- local government, local government-owned entities and their subsidiaries and joint ventures;
- PRC nationals residing in the PRC or other entities incorporated in the PRC and their subsidiaries and joint ventures;
- PRC nationals residing outside of the PRC or entities incorporated outside the PRC where credit is granted for use in the PRC; and

- other counterparties where the exposures are considered by the reporting institution to be non-bank PRC exposures.

However, the Bank mainly conducts its banking activities in the PRC and Macau with its existing customers based in Hong Kong who are engaged in business in the PRC and Macau. The Bank may increase such banking activities to cater to the needs of its customers as they increase the size and scope of their business operations in the PRC or, as the case may be, Macau. There is no assurance that the Bank's exposure to the PRC and Macau markets, including the general economic and business conditions, the banking industry, the political and social environment and the legal system of the PRC and Macau, will not have a negative impact on the Bank's business, financial condition or results of operations.

Operational risks inherent in the Bank's business

Operational risks arise from the daily operation and fiduciary activities of the Bank. The Bank is exposed to operational failures by third-party providers, to natural disasters, political, security and social events and to failings in the financial services sector. While the Bank maintains an appropriate operational risk management framework, deficiencies in the internal processes and systems within the Bank could affect its ability to process, summarise and report financial and other data in a timely and accurate manner. These deficiencies could also increase the potential for financial reporting errors and non-compliance with regulations.

Like all other financial institutions, the Bank is exposed to many types of operational risks, including, but not limited to, the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, and other regulations governing its business activities). The business, reputation and prospects of the Bank may be adversely affected if the Bank is not able to detect and prevent fraud, corruption or other misconduct committed by its employees, customers or other third parties in a timely manner.

In addition, the Bank is exposed to risks associated with operational errors, such as clerical or record-keeping errors or errors resulting from faulty computer or telecommunications systems. Moreover, the Bank is exposed to the risk that its business continuity and data security systems prove to be insufficient in case of a system failure, outbreak of a highly contagious disease such as COVID-19, or a natural disaster.

The Bank's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems that will result in losses that may be difficult to detect. The Bank may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses, electrical or telecommunication outages), which may give rise to a deterioration in customer service and result in loss or liability to the Bank. The Bank also faces the risk that the design of its controls and procedures may prove inadequate or be circumvented, thereby causing delays in the detection of errors in information. Although the Bank has safety measures in place such as maintaining a back-up system for its core banking systems, implementing business continuity drills for contingencies such as power failure, fire, and contagious disease, and maintaining a system of controls designed to keep operational risks at appropriate levels, there can be no assurance that it will not suffer material losses from operational risks in the future. The Bank's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties.

Changes in regulatory environment in the PRC banking industry

The Bank's businesses are directly affected by changes in the PRC's banking regulatory policies, laws and regulations. The regulatory system and the laws and regulations governing the banking sectors are subject to future changes. Some of the changes in rules and regulations may result in additional costs or restrictions on the Bank's operations and business expansion in the PRC and there can be no assurance that such changes will not have a material adverse effect on the Bank's business, financial condition and results of operations.

As some of the PRC's banking laws, rules, regulations or policies are relatively new, there is uncertainty regarding their interpretation and application. If the Bank fails to comply with any of these laws, rules, regulations or policies, it may result in enforcement actions, which may include fines to be imposed on the Bank, restrictions on its business activities, or in extreme cases, suspension or revocation of its business licences, which would have a material adverse effect on the Bank's operations, reputation, business and financial position.

The Bank operates in a highly regulated industry. The principal regulators of the PRC banking industry are the NAFR, the PBoC and the State Administration of Foreign Exchange ("**SAFE**"). The NAFR requires all commercial banks in the PRC to maintain certain financial ratios, including but not limited to liquidity ratio and Capital Adequacy Ratio ("**CAR**").

In accordance with the Commercial Banking Law of the PRC (中華人民共和國商業銀行法) amended on 29 August 2015 and effective on 1 October 2015, the previous requirement that all commercial banks in the PRC should maintain a loan-to-deposit ratio of not more than 75% has been removed. However, the NAFR uses other indicators, such as liquidity coverage ratio, liquidity ratio, and net stable funding ratio to monitor the liquidity status of commercial banks. If the Bank fails to fulfil the relevant requirements, it may result in restrictions on its business expansion imposed by the NAFR, such as the suspension of new business applications and establishment of new branches or sub-branches. As at 31 December 2024, the Bank has complied with this mandatory requirement.

There is no assurance that the Bank can always satisfy applicable laws and regulatory requirements. If the Bank does not meet any such requirements, it may have a material adverse effect on the Bank's business, financial condition and results of operations.

Risk management policies and procedures and internal controls may not be adequate or effective

The complexity of the Bank's operations and products exposes it to various risks, including credit risk, market risk, liquidity risk, foreign exchange risks, interest rate risk, reputational risk and operational and legal risk. The Bank has established risk management and internal control systems and procedures to manage potential risks associated with the financial services and products it offers, and it is dedicated to continuously improving these systems and procedures. See "*Selected Statistical and Other Information – Asset and Liability Management*". However, the design and implementation of such systems, including internal control environment, risk identification and evaluation, effectiveness of risk control and information communication, are constrained by information, tools, models and technologies available to the Bank, and its systems may not be adequate or effective in identifying or mitigating its risk exposure in all market environments or protecting it against all types of risks. The Bank's risk management and internal control systems require constant maintenance and continual improvements. The Bank's efforts in maintaining these systems may be ineffective or inadequate.

The effectiveness of the Bank's risk management and internal control systems and procedures may also be adversely affected by oversight, clerical mishandling, human errors, reporting errors or its limited experience or resources in making accurate, complete, up-to-date or proper evaluations. Many of the Bank's methods for managing risk exposure are based upon observed historical market behaviour or data. Potential future risk can be significantly greater than what these methods have historically estimated. Moreover, the information and empirical data that the Bank relies on may quickly become obsolete as a result of changes in market situations and regulatory requirements, and the Bank's historical data may not be able to adequately reflect risks that may emerge from time to time in the future.

There is no assurance that the Bank's risk management and internal control systems are adequate and effective. Failure to address any internal control matters and other deficiencies in a timely and effective manner may result in investigations, disciplinary actions or even prosecution being taken against the Bank or its employees, or disruption to its risk management system, any of which may have a material adverse effect on its business, financial condition and results of operations.

Failures of or inadequacies in information technology ("IT") systems

The Bank's business operations depend heavily on its business, accounting and other data processing systems. The failure of normal operations or even inability in the operation of any of such systems will expose it to financial losses, business disruption, intervention of regulatory authorities or reputational damage.

The proper functioning of the Bank's business processing, accounting, financial controls, risk management, customer service and other business is dependent on its IT systems and communication networks with third parties. If the fundamental system which supports the Bank's business suffers from malfunction or disruption (including system problems or communication disruption of its systems) it may indirectly affect the systems of any third parties it engages and result in a material adverse effect on the Bank's ongoing business. These failures could be caused by, among other things, hardware failure, software program errors, computer virus attacks, network failure, conversion errors due to system upgrade or system relocation, failure to implement new IT initiatives, human errors, natural disasters, war, terrorist attacks, blackouts and unanticipated problems of facilities, many of which are beyond its control. Although the Bank backs up business data regularly, any prolonged disruption to or malfunction in the operation of its IT systems could have a large impact on its normal business operations and limit its ability to monitor and manage data, control financial and operation conditions, monitor and manage its risk exposures, keep accurate records, provide high-quality customer service and develop and sell profitable products and services. Recovery from such disasters may be unable to mitigate the Bank's losses incurred during such malfunction and disruptions. In addition, insurance or any other precaution measures may only partly, if at all, indemnify the Bank's losses.

The Bank updates its IT systems and introduces new IT systems from time to time. However, delays, system failures or other accidents may occur during such system upgrades or introduction of new systems. In addition, the upgraded or new IT systems may not be able to achieve the anticipated processing capacity and availability, and also may not be able to meet the needs of its business growth in the future. The Bank's failure to address these problems promptly, including any delay in the implementation of any upgraded or new IT systems, could result in its inability to perform or cause delays in performing critical business operational functions, loss of key business data, or a failure to comply with regulatory requirements, which could have a material adverse effect on its business, financial condition and results of operations.

In addition, the Bank provides online financial services such as securities brokerage services to its customers. Security breaches, disruption to or instability of the Bank's online services platform could impair its ability to serve its customers and execute trades on their behalf and on its own account, which could materially and adversely affect its results of operations and reputation. The Bank's networks may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs incurred in rectifying any such disruptive problems may be high and may adversely affect the Bank's business, financial condition and results of operations. To reduce security risks, the Bank has installed firewalls, anti-virus software, and network traffic monitoring tools. However, there can be no assurance that such measures are effective. Concerns regarding security risks in general may deter the Bank's existing and potential customers from using its internet banking products and services, and may in turn have a material adverse effect on the Bank's internet banking business, and in turn, its financial condition and results of operation.

Dependence on key personnel

The Bank's business and operations are substantially dependent upon key members of its management. Although the Bank has succeeded in maintaining the core of its senior management team over the recent past, loss of the services of members of the Bank's senior management and/or failure to recruit replacements in the future could have an adverse effect on the Bank's financial condition and results of operations.

The ability of the sole shareholder and related parties to exercise influence over certain of the Bank's affairs

In 2021, Yue Xiu Enterprises (Holdings) Limited completed the acquisition of the public equity of the Bank. Following the conclusion of the privatisation process, the Bank became a direct wholly-owned subsidiary of Yuexiu Financial Holdings Limited ("**Yuexiu Financial**"), and was delisted from the HKSE on 30 September 2021. Yuexiu Financial is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings Limited, one of the largest state-owned enterprises in Guangzhou by total assets. With its sole shareholding, Yuexiu Financial ultimately determines the strategy of the Bank. Yuexiu Financial is able to re-elect retiring directors and vote to pursue corporate actions requiring shareholders' approval. As at the date of this Offering Circular, three Executive Directors on the Bank's management are members of Yuexiu Financial's board of directors. The three Executive Directors do not hold shareholding interests in the Bank. Accordingly, Yuexiu Financial has the ability to exert influence over the Bank's affairs subject to the applicable laws of Hong Kong and requirements set by the Monetary Authority.

The Bank's future strategy in the PRC is to focus on the development of cross-border capabilities and services in conjunction with 廣州越秀集團股份有限公司(Guangzhou Yue Xiu Holdings Limited*)("**Guangzhou Yue Xiu Holdings Limited**") Guangzhou Yue Xiu Holdings Limited to serve PRC-related in-bound and/or out-bound business needs of its customers in the PRC and Hong Kong. The Bank intends to expand its current operations in the PRC, and although the lines of services to be offered by the Bank and Guangzhou Yue Xiu Holdings Limited are not intended to be the same, the customer resources of the Bank may, in the future overlap with the business of Guangzhou Yue Xiu Holdings Limited. There can be no assurance that conflicts of interests will not arise between the Bank and Guangzhou Yue Xiu Holdings Limited and its subsidiaries or other companies. While the Bank has internal control policies and procedures to minimise any potential conflict of interest, the Bank owes no duty to investors to avoid such conflicts. Furthermore, the Bank may, from time to time, enter into a number of transactions with companies controlled or significantly influenced by Guangzhou Yue Xiu Holdings Limited. The transactions may include, among others, lending, deposit taking, loan syndications, provision of cheque clearing services, stockbroking and nominee services, remittances and foreign exchange services, acceptance of property consultancy and property management services and leasing of office premises. The Bank conducts all transactions with its related parties on an arm's length basis and believes that such transactions are as beneficial, and on terms as favourable to it, as similar transactions with unrelated third parties would have been. In addition, the Bank has three Independent Non-executive Directors and maintains internal policies and procedures to prevent possible conflicts of interest.

Material changes in, or breach of regulations that govern the Bank and its business activities may adversely affect its business and future financial performance

Banks in Hong Kong, Macau and the PRC are subject to the supervision of the Monetary Authority, Autoridade Monetária de Macau ("**AMCM**") and the CBIRC respectively. Potential investors should be aware that regulatory requirements in Hong Kong, Macau and the PRC may differ from those that prevail in other countries.

Apart from the above, certain products and services provided by the Bank are regulated by other regulators including the Securities and Futures Commission ("**SFC**") in Hong Kong. From time to time, the regulators in Hong Kong may introduce recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector and in particular, in relation to the selling of investment products to retail customers. Further, any failure of the Bank to comply with such regulatory requirements could result in administrative actions or sanctions, which may have an adverse effect on the Bank's results of operations. The Bank carefully manages legal and compliance risks, including in relation to the sale of financial products and compliance with anti-money laundering and anti-terrorist financing regulations. Since the Bank operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements.

Any changes in regulation, governmental policies, income tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations in Hong Kong could affect the Bank's operations. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the Bank's operational and compliance costs or adversely affect its business or operations.

Any failure of the Bank to detect money laundering and other illegal improper activities fully or in timely manner may expose the Bank to additional liability or harm to reputation

The Bank is required to comply with applicable anti-money laundering, anti-terrorism and sanctions laws and other regulations in Hong Kong, Macau and the PRC. Financial institutions in Hong Kong, Macau and the PRC are required to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require the Bank, *inter alia*, to designate an independent anti-money laundering officer, establish a customer identification system in accordance with relevant rules, record the details of customer activities and report suspicious transactions to relevant authorities.

Whilst the Bank has already adopted policies and procedures to detect and prevent the use of the Bank's network for money laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent the Bank fails to fully comply with applicable laws, rules and regulations, the relevant government agencies to which the Bank reports to have the power and authority to impose fines, freeze assets and impose other penalties on the Bank. There can be no assurance that there will not be future failures in detecting money laundering or other illegal or improper activities which may adversely affect the Bank's business reputation, financial condition and results of operations.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties in a timely manner

The Bank may encounter fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties, which could result in violations of laws and regulations by the Bank and expose it to regulatory sanctions. Even if such instances of misconduct do not result in any legal liabilities on its part, they could cause serious reputational or financial harm to the Bank. This misconduct could include, but may not be limited to, committing fraud.

The Bank's internal control procedures are designed to monitor its operations and ensure overall compliance. However, its internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct. The precautions taken to detect and prevent such activities may not be fully effective. There can be no assurance that fraud or other misconduct will not occur in the future. The Bank's failure to detect and prevent fraud and other misconduct in a timely manner may have a material and adverse effect on its business reputation, financial condition and results of operations.

Corporate disclosure and regulatory requirements in Hong Kong

Under the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**"), the Monetary Authority regulates the business activities and operations of commercial banks and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those that prevail in other countries. See "*Regulation and Supervision – Regulation and Supervision in Hong Kong – Supervision of Authorized Institutions in Hong Kong*". Since the Bank operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements such as the Basel III capital standards which have been adopted in Hong Kong since January 2013.

In December 2010 and January 2011, the Basel Committee issued the Basel III requirements to raise the quality, consistency and transparency of banks' capital base and new global liquidity standards. Among other things, Basel III will increase the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2% to 4.5% and the Tier 1 capital requirements rising from 4% to 6%. The total minimum capital requirement remains unchanged at 8%. The Basel III reforms have been fully implemented by the government of Hong Kong by 1 January 2025.

The Banking Ordinance was amended in 2012 to facilitate the implementation of the Basel III capital and disclosure requirements in Hong Kong. More specifically, the amendments made to the Banking Ordinance empowered the Monetary Authority to:

- prescribe capital requirements for authorized institutions incorporated in Hong Kong or elsewhere; and

- issue and approve codes of practice for the purpose of providing guidance in respect of the requirements.

The Banking (Capital) Rules (Cap. 155L) of Hong Kong set out the capital requirements applicable to authorized institutions in Hong Kong. These capital requirements were phased in over several years and include:

- the imposition of three minimum risk-weighted capital ratios, namely Common Equity Tier 1 capital ratio, Tier 1 capital ratio and total capital adequacy ratio and a non-risk based leverage ratio requirement;

- the introduction of capital buffers, namely the capital conservation buffers, countercyclical capital buffers and in the case of authorized institutions considered by the Monetary Authority as systemically important, higher loss absorbency requirements;

- the introduction of capital requirement for counterparty risk effect; and

- the introduction of Basel III criterions for capital instruments to qualify as regulatory capital, with transitional arrangements for any capital instruments issued prior to 1 January 2013 to phase out their inclusion in an authorized institution's capital base over a 10-year period.

Basel III liquidity, exposure limits and disclosure requirements have also been implemented in Hong Kong through (i) the Banking (Liquidity) Rules (Cap. 155Q) of Hong Kong, where authorized institutions are required to comply with requirements relating to the liquidity coverage ratio, the net stable funding ratio, the liquidity maintenance ratio and core funding ratio, depending on their categorisation, (ii) the Banking (Exposure Limits) Rules (Cap. 155S) of Hong Kong, effective 1 July

2019, which implement the Basel Committee on Banking Supervision's 2014 large exposures standards and updates other exposure limits, and (iii) the Banking (Disclosure) Rules (Cap. 155M) of Hong Kong, which set out certain disclosure requirements.

The Banking (Liquidity) Rules (Cap. 155L) of Hong Kong were enacted into local regulations in October 2014 and these rules have commenced operation since 1 January 2015. The Bank has fully implemented the Basel III compliance liquidity standards in accordance with the legislation.

Certain products and services provided by the Bank are regulated by other regulators including the SFC in Hong Kong. The Bank carefully manages legal and compliance risks, including in relation to the sale of financial products. Since 2007, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the marketing and sale of investment products.

In May 2010, the Monetary Authority and the SFC each launched new investor protection measures. The Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and its subsidiary legislations regulate the offering and sales of securities products as defined under Schedule 1 of the SFO. In addition to the subsidiary legislations, the Monetary Authority has been introducing additional measures on sales of investment products, including non-SFO regulated investment products, for the banking industry in Hong Kong to observe.

Among others, the Monetary Authority issued several circulars in relation to the selling of investment products, which further clarified and enhanced the product due diligence process, product disclosure to customers and suitability assessment. With regards to the investment products with a relatively higher risk (such as accumulators and high yield or complex bonds), the Monetary Authority also specified the regulatory standards for selling these products.

Separately, the SFC has been revising their Code of Conduct for Persons Licensed by or Registered with the SFC (the "**Code**") for meriting greater protection to investors, including the reform of the Professional Investor Regime in March 2016 that disapplied most of the previous exemptions under the Code to the Individual Professional Investors, and added a new clause into client agreements making the intermediary's suitability obligation towards its customers a contractual term by June 2017.

Going forward, it is foreseeable that in the future there would be further reinforcements and more stringent requirements on the regulations, particularly those in relation to the suitability of selling investment and insurance products and fairness and transparency of providing banking products and services to customers. The Bank has taken steps to implement the recommendations by relevant regulators and to comply with any new or modified regulations. Increased regulation and the requirement for more stringent customer protections have increased its operational and compliance expenses. Any changes in regulation, governmental policies, income tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations in Hong Kong, could affect the Bank's operations. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the Bank's operational and compliance cost or adversely affect its business or operations. There can also be no assurance that breaches of legislation or regulations by the Bank will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

As at 31 December 2024, the Bank was in compliance with the regulatory capital requirements in Hong Kong. If the regulatory capital requirements, liquidity requirements or ratios applied to the Bank continue to increase in the future, there can be a material adverse effect on the Bank's return on capital and profitability, which may in turn affect the Bank's ability to pay principal, interest or distribution under the Instruments. In addition, any failure by the Bank to satisfy such increased regulatory capital adequacy ratios or liquidity requirements within the applicable timeline could result in administrative actions, or significant reputational harm, which in turn may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank may be involved in legal and other proceedings arising from its operations from time to time

Legal risks arise from a variety of sources with the potential to cause harm to the Bank and its ability to operate. These issues require the Bank to deal appropriately with, amongst other things, potential conflicts of interest, legal and regulatory requirements, ethical issues, anti-money laundering and anti-terrorist financing laws or regulations, privacy laws, information security policies, sales and trading practices, and conduct by companies it is associated with. Failure to address these issues appropriately may give rise to additional legal and compliance risk to the Bank, which may increase the number of litigation claims and the amount of damages asserted against the Bank, or subject the Bank to regulatory enforcement actions, fines, penalties or reputational damage.

Litigation and claims will always be a possibility and such claims, in aggregate, may become material to the Bank. Similarly, there can be no assurance that relevant government authorities or regulators will not seek to impose fines and/or suspend the Bank's regulated activities as a result of regulatory proceedings. Regulatory pressure to settle claims could also result in material payments by the Bank to disgruntled investors, which often does not reflect the merits of the parties' cases. Any legal or regulatory proceedings, whether substantiated or not, may result in negative publicity and a loss of customer confidence and/or goodwill, which may lead to a loss of business that may pose adverse effect on the Bank's reputation with existing and potential customers, as well as the Bank's business, financial condition or results of operations. Future legislative or regulatory restrictions may also limit the practices and ability of the Bank to sell investment products, which may have an impact on the Bank's business.

If the Bank is unsuccessful in defending any legal proceedings, or is unsuccessful in settling any legal proceedings on commercially reasonable terms, the Bank may be liable to pay damages or face penalties or sanctions that may have a material adverse effect on the Bank's business, results of operations and financial condition. In addition, whilst the Bank has purchased liability insurance, there is no assurance by the Bank that such insurance coverage is sufficient to eliminate or mitigate potential loss and damage caused by such proceedings.

The Bank is subject to the resolution and broader regulatory regime for banks and other institutions in Hong Kong

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions as designated by the relevant resolution authorities, which includes the Bank. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or financial institution in Hong Kong, including powers to effect contractual and property rights as well as payments that creditors would receive in resolution, which include powers to write off or convert all or part of the Instruments. Whilst the FIRO sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on the Bank cannot currently be fully accurately assessed. See "*Investment Considerations – Risks relating to the Instruments – the establishment of a resolution regime in Hong Kong may override the contractual terms of the Instruments*".

RISKS RELATING TO HONG KONG, PRC AND ELSEWHERE

The Hong Kong economy

The Bank conducts most of its operations and generates most of its revenue in Hong Kong. The Bank's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any disruption to the Hong Kong economy, such as social unrest or protests (including social unrest and protests between 2019 and 2020), the outbreak of a highly contagious disease such as COVID-19, an increase in the unemployment rate, a reduction in consumer spending, an upsurge in interest rates, persistent volatility in commodity prices, slower economic growth in the PRC or a fall in the number of travellers to Hong Kong for shopping or business, has had and may in the future have an adverse impact on the Bank's business, financial condition, asset value, results of operations and prospects.

The Hong Kong economy is also affected, to a significant extent, by the economic conditions of the United States, Europe and other world economies. As a result, the Bank's financial condition and the results of its operations may be adversely affected by a sustained downturn, if any, and market volatility in the United States, Europe or other world economies.

The global credit markets have experienced significant volatility, such as that caused in recent years by the global financial and economic crisis and events, including the European debt crisis, the potential withdrawal of countries from the Euro-zone, Brexit and volatility in the PRC stock market, which have led to less favourable financial and economic conditions. Any volatility or deterioration in the economic conditions in the United States, Europe, the PRC or elsewhere may have and may continue to have a negative impact on the economies of Hong Kong and other Asia Pacific countries which may in turn materially and adversely affect the Bank's business, financial condition and the results of its operations and its ability to access the capital markets. These factors may lead to a decrease in consumer demand and may have a negative impact on the Hong Kong economy, and in turn, the business, results of operations, financial condition and prospects of the Bank.

The PRC economy

As at 31 December 2024, the Bank had five branches located in Guangzhou, Beijing, Shenzhen, Shanghai and Shantou in the PRC and eleven sub-branches in the PRC.

The Bank plans to continue developing its cross-border business and operations in the PRC in the future. Accordingly, the Bank's performance and the quality and growth of its assets are necessarily dependent on the overall economy in the PRC. Many of the Bank's commercial customers are dependent to varying degrees on trade with the PRC. The asset quality of the Bank's loans in the PRC, as well as its loans to customers that have business interests in the PRC, may be influenced by the general state of the PRC economy and may be affected by significant political, social or legal uncertainties or changes in the PRC (including changes in political leadership, the rate of inflation, Renminbi interest rate and Renminbi exchange rate). There can be no assurance that the economic and political environment in the PRC will remain favourable to the Bank's business in the PRC in the future.

There has been a slowdown in the growth of the PRC's GDP since the second half of 2013 and this has raised market concerns that the historic rapid growth of the economy of the PRC may not be sustainable. According to the National Bureau of Statistics of the PRC, the annual growth rate of China's GDP in 2021 increased to 8.4 percent., which then dropped to 3.0 per cent. in 2022. In 2023, China's GDP reached RMB126.06 trillion, representing year-on-year growth of 5.2 per cent.

In addition, concerns have arisen recently over deflationary pressures in the PRC as a result of weak domestic demand and a slowing economy. Inflation rates within the PRC have been on a downward trend in recent years, resulting in falling profits, closure of plants and shrinking employment and incomes by companies and individuals. Reduced domestic consumption and declined wages have also led to lower loan quality and more defaults. For example, since September 2021, there has been negative news relating to certain PRC real estate developers including defaults on their indebtedness as a result of various economic measures imposed by the PRC government with an aim of cooling the overheated real estate market and corporate deleveraging in the PRC, including strengthened supervision over PRC real estate developers and tightened credit requirements. This has had a negative impact on, and resulted in increased volatility in, the PRC real estate industries, and has negatively impacted property prices and transaction volumes and resulted in an oversupply of residential and commercial properties. The PRC government has recently promulgated certain stimulus measures to support the revive of the PRC real estate market and certain real estate property developers, but there is no guarantee that any such measures could achieve their intended effect. Any continued deterioration of the PRC real estate industries may have an adverse impact on the value of loans made to these customers, may affect relevant segments of the economy and may in turn affect the Bank's business, financial condition or results of operations. Moreover, deterioration in the financial condition of the borrowers in real estate industries could materially and adversely affect the quality of the existing loans and the Bank's ability to generate new loans, and could have a material adverse effect on its business, financial condition or results of operations. There can be no assurance that the Bank's continued exposure to the PRC or its strategy to grow its business in the PRC will not have a negative impact on the Bank's earnings or an adverse effect on the Bank's business, financial condition or results of operations or that the economic and political environment in the PRC will remain favourable to the Bank's business in the PRC in the future.

As far as the banking sector is concerned, this not only affected loan demand but also increased credit risk. In response to economic slowdown, the PRC government adopted a series of stimulus measures including, *inter alia*, reductions in the reserve requirement ratio and interest rates.

The People's Bank of China ("**PBOC**") publishes and adjusts benchmark interest rates on loans and deposits from time to time. For example, with effect from 22 November 2014, 1 March 2015, 11 May 2015, 28 June 2015 and 26 August 2015 and 24 October 2015, respectively, the PBOC lowered the benchmark interest rates on RMB denominated loans and deposits. In late 2021, PBOC lowered the one-year loan prime rate to 3.8 per cent., down from 3.85 per cent. On the other hand, the PBOC continues to liberalise the restrictions on interest rates for loans. For example, on 20 July 2013, the PBOC eliminated the minimum interest rate requirements for RMB-denominated loans. As at 20August 2020, the ceiling on private lending interest rate has been significantly lowered to 15.4 per cent., from the previous ceiling, which was set between 24 per cent. and 36 per cent. Moreover, while a multi-year appreciation of the RMB exchange rate had already started to give way to two-way fluctuations, the PBOC's decision to change its daily rate fixing mechanism triggered a noticeable downward pressure on the RMB exchange rate and fuelled expectations of further devaluation ahead. If the PRC's economy experiences a continued slowdown in growth or a downturn in the future, or if the RMB exchange rate experiences unexpected phenomenal fluctuations, the Bank's PRC business and its ability to implement its growth strategies in the PRC could be materially and adversely affected, which would in turn have a material adverse effect on the Bank's PRC business as a whole.

Furthermore, the PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a large portion of productive assets in China remain owned by the PRC government. The PRC government retains the power to implement macroeconomic policies affecting the PRC economy and continues to play a significant role in regulating industrial development, allocating resources, setting monetary policy, implementing measures on production, pricing, management and taxation and providing preferential treatment to particular industries or companies. These measures are aimed at benefiting the overall economy of the PRC, but some of the measures may have negative effects on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in the interpretation of, and application of, applicable tax regulations.

With the increased integration of the PRC and Hong Kong economies, PRC policies may have an impact on Hong Kong and Hong Kong companies conducting business in the PRC. The Bank and its customers may also be affected accordingly.

Interpretation of PRC laws may be subject to domestic political and policy changes

The interpretation of PRC laws may be subject to domestic political and policy changes. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. Many of these laws and regulations continue to evolve and these laws and regulations may be subject to different interpretation and enforcement. In addition, although there is a large volume of published court decisions and such court decisions may be cited for reference, they are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides interpretations.

For example, the NDRC issued the Administrative Measures for the Examination and Registration of Medium- and Long-term Foreign Debts of Enterprises(企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號))(as supplemented, amended or replaced from time to time) and any implementation rules or policies as issued by the NDRC from time to time (the "**NDRC Order 56**"), which came into effect on 10 February 2023. Under the NDRC Order 56, the Bank shall, (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the Certificate with respect to the relevant Notes in accordance with the NDRC Order 56, (ii) file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations. The NDRC Order 56 mentions some legal consequences of non-compliance with the pre-issuance registration requirement. For example, if the enterprise borrows foreign debt in violation of the NDRC Order 56, the examination and registration authority shall take disciplinary actions such as holding an interview and giving a public warning against the relevant enterprise and its principal person-in-charge according to the seriousness of the circumstances, and if any intermediary agency knows or should have known that an enterprise is borrowing foreign debt in violation of the relevant provision of the NDRC Order 56 but still provides the relevant intermediary services to the enterprise, the examination and registration authority shall circulate a notification of violation of regulations, and consult the relevant department on punishing the relevant intermediary agency and relevant liable persons in accordance with the applicable laws and regulations. In the worst case scenario, if pre-issuance registration is required but not complied with, it might become unlawful for the Bank to perform or comply with any of its obligations under the relevant Instruments and the relevant Instruments might be subject to enforcement. Potential investors of the Instruments are advised to exercise due caution when making their investment decisions.

Furthermore, the NDRC Administrative Measures are relatively new and there is a lack of clear statutory interpretation regarding how it would be enforced and interpreted. If the Bank does not complete the post-issue and continuing filing obligations under the NDRC Administrative Measures with respect to the Instruments within the prescribed timeframe (including as a result of reasons outside the Bank's control), the NDRC may impose sanctions or other administrative procedures on the Bank which may have a material adverse impact on the Bank's business, financial condition or results of operations.

RISKS RELATING TO THE INSTRUMENTS

The shareholder of the Bank, or certain of its affiliates or entities otherwise controlled by it, may subscribe for the Instruments

Yuexiu Financial, the Bank's shareholder, or certain of its affiliates or entities otherwise controlled by it, may subscribe for the Instruments. Such subscription may or may not form a substantial portion of a Series of Instruments. If a substantial portion of a Series of Instruments is subscribed by Yuexiu Financial or certain of its affiliates or entities otherwise controlled by it, the interests of the other Instrumentholders of the relevant Series may be affected. Any holder of a substantial principal amount of a series of Instruments, even if less than a majority, will be able to exercise certain rights and powers in relation to such series of Instruments. For example, holders of a Series of Senior Notes holding at least 25 per cent. of the aggregate principal amount of a Series of Senior Notes may, subject to the terms and conditions of the relevant Senior Notes, request the Trustee to give notice to the Issuer that the Senior Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest to the date of redemption. Similarly, Securityholders holding at least 25 per cent. of the aggregate principal amount of a Series of Perpetual Capital Securities may, subject to the terms and conditions of the relevant Perpetual Capital Securities, request the Trustee to institute a Winding-Up Proceeding against the Issuer.

Holders of a substantial amount of a Series of Instruments will also have substantial voting power and influence in meetings of Noteholders or Securityholders and in the consideration of extraordinary resolutions relating a Series of Instruments. The interests of Yuexiu Financial or its affiliates may not be aligned or coincide with those of the other Instrumentholders. In addition, the presence of a substantial Instrumentholder may also reduce the liquidity and trading price of the Instruments in the secondary trading market. There can accordingly be no assurance that any holdings by Yuexiu Financial or its affiliates' of any Series of Instruments will not affect the interests of the other Instrumentholders of that Series.

The resolution regime in Hong Kong may override the contractual terms of the Instruments

On 7 July 2017, the FIRO came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong as may be designated by the relevant resolution authorities, which includes the Bank as the issuer of the Instruments. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, and subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Instruments or the principal amount of, or interest on, the Instruments, and powers to amend or alter the contractual provisions of the Instruments, all of which may adversely affect the value of the Instruments, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Instruments (whether senior or subordinated) will be subject to and bound by the FIRO.

The implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO and any potential secondary legislation and/or supporting rules made under FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

The Instruments may not be a suitable investment for all investors

Each potential investor in any Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Instruments and be familiar with the behaviour of any relevant financial markets;

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and

(vi) have sufficient knowledge and expertise (either alone or with a financial adviser) to evaluate the effect or the likelihood of the occurrence of a Non-Viability Event for Subordinated Notes which feature loss absorption.

The Instruments are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of the Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

Investors shall pay attention to any modification

The Conditions contain provisions for calling meetings of Instrumentholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Instrumentholders, including Instrumentholders who did not attend and vote at the relevant meeting and Instrumentholders who voted in a manner contrary to the majority.

In addition, the Conditions may be amended, modified, or varied in relation to any Series of Instruments by the terms of the relevant Pricing Supplement in relation to such Series.

The Conditions also provide that the Trustee may agree, without the consent of Instrumentholders, to:

- any modification of any of the provisions of the Trust Deed, the Agency Agreement and/or the Conditions that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law or as required by Euroclear and/or Clearstream or CMU; and

- any other modification to the Trust Deed (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Instrumentholders.

The effect of the above provisions is that an Instrumentholder may be unable to prevent certain modifications, waivers and substitutions that might be disadvantageous to that Instrumentholder from being made in respect of the Instruments in accordance with the Conditions.

Reliance on procedures of Euroclear, Clearstream and the CMU

Instruments issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depositary for Euroclear, Clearstream or sub-custodian for the CMU. Except in the circumstances described in each Global Note or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of Euroclear, Clearstream and the CMU and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Instruments where denominations involve integral multiples: definitive Instruments

In relation to any issue of Instruments which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Instruments may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Instrument in respect of such holding (should definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that its holding amounts to a Specified Denomination.

If definitive Instruments are issued, holders should be aware that definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Investors shall be aware of the effect of change of law

The Conditions are based on Hong Kong law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to Hong Kong law, or administrative practice after the date of this Offering Circular.

Considerations related to the structure of a particular issue of Instruments

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Instruments subject to optional redemption by the Bank

An optional redemption feature is likely to limit the market value of Instruments. During any period when the Bank may elect to redeem Instruments, the market value of those Instruments will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Bank may be expected to redeem Instruments when its cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly-paid Instruments

The Bank may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Instruments with a multiplier or other leverage factor

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Instruments

Fixed/Floating Rate Instruments may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of such Instruments since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Instruments may be less favourable than then prevailing spreads on comparable Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Instruments.

Instruments issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

If the Bank does not satisfy its obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes other than the Subordinated Notes may be accelerated only in the event of certain events involving the Bank's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes – Events of Default and Default*".

RISKS RELATING TO THE MARKET IN GENERAL

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market in general

Instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Instruments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Instruments that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Instruments would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Instruments.

Exchange rate risks and exchange controls

The Bank will pay principal and interest (where applicable) on the Instruments in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease:

(i) the Investor's Currency-equivalent yield on the Instruments;

(ii) the Investor's Currency equivalent value of the principal payable on the Instruments; and

(iii) the Investor's Currency equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the Instruments.

RISKS RELATING TO INSTRUMENTS WHICH ARE LINKED TO "BENCHMARKS"

Regulation of benchmarks may lead to future reforms or discontinuation

The Euro Interbank Offered Rate ("**EURIBOR**") and other interest rates or other types of rates and indices which are deemed to be benchmarks have been subject to significant regulatory scrutiny and legislative intervention in recent years. This relates not only to creation and administration of benchmarks, but, also, to the use of a benchmark rate. In the EU, for example, Regulation (EU) No. 2016/1011, as amended (the "**EU Benchmarks Regulation**") applies to the provision of, contribution of input data to, and the use of, a benchmark within the EU, subject to certain transitional provisions. Similarly, Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018, as amended (the "**UK Benchmarks Regulation**") applies to the provision of, contribution of input data to, and the use of, a benchmark within the UK, subject to certain transitional provisions.

Legislation such as the EU Benchmarks Regulation or the UK Benchmarks Regulation, if applicable, could have a material impact on any Instruments linked to EURIBOR or another benchmark rate or index – for example, if the methodology or other terms of the benchmark are changed in the future in order to comply with the terms of the EU Benchmarks Regulation or UK Benchmarks Regulation or other similar legislation, or if a critical benchmark is discontinued or is determined to be by a regulator to be "no longer representative". Such factors could (amongst other things) have the effect of reducing or increasing the rate or level or may affect the volatility of the published rate or level of the benchmark. They may may also have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks", or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

Although EURIBOR has subsequently been reformed in order to comply with the terms of the EU Benchmarks Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with the Euro Short Term Rate ("**€STR**") or an alternative benchmark.

The elimination of EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Note Condition 5(i) (*Benchmark Discontinuation (general)*) or Perpetual Securities Condition 4(i) (*Benchmark Discontinuation (general)*), or result in adverse consequences to holders of any Instruments linked to such benchmark (including Floating Rate Instruments whose interest rates are linked to EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Instruments, the return on the relevant Instruments and the trading market for securities (including the Instruments) based on the same benchmark.

Methodologies for the calculation of risk-free rates (including overnight rates or forward-looking rates) as reference rates for Floating Rate Instruments may vary and may evolve

"Risk-free" rates, such as the Sterling Overnight Index Average ("**SONIA**"), the Secured Overnight Financing Rate ("**SOFR**") and the euro short-term rate ("**€STR**"), as reference rates for Eurobonds, have become more commonly used as benchmark rates for bonds in recent years. Most of the rates are backwards-looking, but the methodologies to calculate the risk-free rates are not uniform. Such different methodologies may result in slightly different interest amounts being determined in respect of otherwise similar securities.

The Issuer may in the future also issue Instruments referencing SONIA, the SONIA Compounded Index, SOFR, the SOFR Compounded Index or €STR that differ materially in terms of interest determination when compared with any previous Instruments issued by it under this Programme.

Such variations could result in reduced liquidity or increased volatility or might otherwise affect the market price of any Instruments that reference a risk-free rate issued under this Programme from time to time. In addition, investors should consider how any mismatch between applicable conventions for the use of reference rates in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Instruments referencing such risk-free rates. Investors should consider these matters when making their investment decision with respect to any Instruments which reference SONIA, SOFR, €STR or any related indices.

It is not possible to calculate interest rates in advance for Instruments which reference SONIA, SOFR, €STR or any related indices

Interest on Instruments which reference a backwards-looking risk-free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may therefore be difficult for investors in Instruments which reference such risk-free rates reliably to estimate the amount of interest which will be payable on such Instruments.

Further, in contrast to Instruments linked to interbank offered rates, if Instruments referencing backwards-looking rates become due and payable as a result of an Event of Default under the Conditions, or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Instruments shall be determined by reference to a shortened period ending immediately prior to the date on which the Instruments become due and payable or are scheduled for redemption.

The administrator of SONIA, SOFR or €STR or any related indices may make changes that could change the value of SONIA, SOFR or €STR or any related index, or discontinue SONIA, SOFR or €STR or any related index

Newer reference rates or any related indices and rates that fall outside the scope of the EU Benchmarks Regulation and UK Benchmarks Regulation may also be subject to changes or discontinuation. For example, the Bank of England, the Federal Reserve, Bank of New York or the European Central Bank (or their successors) as administrators of SONIA (and the SONIA Compounded Index), SOFR (and the SOFR Compounded Index) or €STR, respectively, may make methodological or other changes that could change the value of these risk-free rates and/or indices, including changes related to the method by which such risk-free rate is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, SOFR or €STR, or timing related to the publication of SONIA, SOFR or €STR or any related indices. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SONIA, SOFR or €STR or any related index (in which case a fallback method of determining the interest rate on the Instruments will apply). The administrator has no obligation to consider the interests of Instrumentholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

Interest rate "fallback" arrangements may lead to Instruments performing differently or the effective application of a "fixed rate"

If a relevant benchmark (including any page on which such benchmark may be published (or any other successor service)) becomes unavailable or a Benchmark Event or a SOFR Benchmark Transition Event (each as defined in the Conditions), as applicable, occurs, the Conditions provide for certain fallback arrangements. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Instruments may not achieve this objective.

Any such changes may result in the Instruments performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. It is also possible that such an event may be deemed to have occurred prior to the issue date for a Series of Instruments. Moreover, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions) in certain circumstances, the relevant fallback provisions may not operate as intended at the relevant time. Additionally, in certain circumstances, the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used, which may result in the effective application of a fixed rate for Floating Rate Instruments based on the rate which was last observed on the Relevant Screen Page.

Any such consequences could have a material adverse effect on the value of and return on any such Instruments. Investors should consult their own independent advisers and make their own assessment about the potential risks arising from the possible cessation or reform of certain reference rates in making any investment decision with respect to any Instruments linked to or referencing a benchmark.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of the Instruments. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Fluctuation of market value of the Instruments

Trading prices of the Instruments are influenced by various factors, including the operating results and/or financial condition of the Group, political, economic, financial and other factors that can affect capital markets, the industry and the Group.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Instruments are legal investments for it, (ii) the Instruments can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Instruments. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Instruments under any applicable risk-based capital or similar rules.

RISKS RELATING TO SUBORDINATED NOTES

The terms of the Subordinated Notes may contain non-viability loss absorption provisions under which the Subordinated Notes may be written-off

A Non-Viability Event (as defined in the Conditions) occurs upon the earlier of the Monetary Authority notifying the Issuer in writing that:

(i) the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or

(ii) a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

To the extent that a series of Subordinated Notes contains provisions relating to loss absorption upon the occurrence of a Non-Viability Event of the Bank, the Bank may be required, subject to the terms of the relevant series of Subordinated Notes, irrevocably (without the need for the consent of the holders of such Subordinated Notes) to either effect a full or partial write-off of the outstanding principal and accrued and unpaid interest in respect of such Subordinated Notes. In the event of a partial write-off, the sequence and the amount of write-off or conversion between different subordinated obligations of the Bank that are capable of being written off or converted is at the discretion of the Monetary Authority. The write-off will be effected in full in the event that the amount written off is not sufficient for the Non-Viability Event to cease to continue. To the extent relevant, in the event that Subordinated Notes are written off, any written-off amount shall be irrevocably lost and holders of such Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off. There will be no compensation for any such loss, and holders could risk losing up to the full principal amount of Notes, besides cancellation of any accrued (and unpaid) interest. Any interest which was not paid on the applicable Interest Payment Date following a Write-off shall not accumulate or be payable at any time thereafter, whether or not funds are or subsequently become available.

Further, as interest is calculated on the basis of the principal amount as adjusted following the occurrence of a Non-Viability Event, in the event that such principal amount is permanently reduced by the relevant Write-off, holders of the Subordinated Notes will receive less interest on their Notes.

The application of non-viability loss absorption features similar to Note Condition 7(a) has not been tested in Hong Kong and some degree of uncertainty may exist in its application.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Group's control

A Non-Viability Event occurs upon the earlier of the Monetary Authority notifying the Issuer in writing that:

(i) the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or

(ii) a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

As a result, the Monetary Authority may require or may cause a write-off in circumstances that are beyond the control of the Issuer and the Group and with which neither the Issuer nor the Group agree.

The regulations on non-viability loss absorption are new and untested, and will be subject to the interpretation and application by the Monetary Authority. It is therefore uncertain how the Monetary Authority would determine the occurrence of a Non-Viability Event, and it is possible that the grounds that constitute Non-Viability Events may change (including that additional grounds are introduced). Accordingly, the operation of any such future legislation may have an adverse effect on the position of holders of any Subordinated Notes.

Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Accordingly, the trading behaviour in respect of Subordinated Notes which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a Non-Viability Event could have a material adverse effect on the market price of the relevant Subordinated Notes.

Potential investors should consider the risk that a holder of Subordinated Notes which have the non-viability loss absorption feature may lose all of their investment in such Subordinated Notes, including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs. A potential investor should not invest in the Subordinated Notes unless it has the knowledge and expertise to evaluate how the Subordinated Notes will perform under changing conditions, the resulting effects on the likelihood of a Write-off and the value of the Subordinated Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular.

Upon the occurrence of a Non-Viability Event, clearance and settlement of the Subordinated Notes will be suspended and there may be a delay in updating the records of the relevant clearing system to reflect the amount written-off

Following the receipt of a Non-Viability Event Notice, all clearance and settlement of the Subordinated Notes will be suspended. As a result, for so long as the Subordinated Notes are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream or any other clearing system, holders of the Subordinated Notes will not be able to settle the transfer of any Subordinated Notes during the period of five Clearing System Business Days (as defined in the Conditions) (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the Clearing System Business Day immediately following the date on which the Non-Viability Event Notice has been received by the relevant clearing systems (the "**Suspension Period**"), and any sale or other transfer of the Subordinated Notes that a holder may have initiated prior to the commencement of the Suspension Period that is scheduled to settle during the Suspension Period will be rejected by the relevant clearing system and will not be settled within the relevant clearing systems.

While a Tranche of Subordinated Notes that contains non-viability loss absorption provisions is represented by one or more Global Notes or Global Certificates and a Non-Viability Event occurs, the records of Euroclear and Clearstream or any other clearing system (other than the CMU) in respect of their respective participants' position held in such Tranche of Subordinated Notes may not be immediately updated to reflect the amount to be written-off (where applicable) and may continue to reflect the nominal amount of such Subordinated Notes prior to the Write-off as being outstanding, for a period of time. The update process of the relevant clearing system may only be completed after the date on which the Write-off is scheduled. Notwithstanding such delay, holders of such Subordinated Notes may lose the entire value of their investment in such Subordinated Notes on the date on which the Write-off occurs. No assurance can be given as to the period of time required by the relevant clearing system to complete the update of their records. Further, the conveyance of notices and other communications by the relevant clearing system to their respective participants, by those participants to their respective indirect participants, and by the participants and indirect participants to beneficial owners of interests in the Global Notes or Global Certificate will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Tax treatment of Subordinated Notes that contain non-viability loss absorption provisions is unclear

It is not clear whether any particular tranche of the Subordinated Notes which contains non-viability loss absorption provisions will be regarded as deposits for the purposes of the Inland Revenue Ordinance (Cap. 112) of Hong Kong and whether the exemption for deposits (as set out in "*Taxation – Hong Kong – Profits Tax*") would apply to such tranche of the Subordinated Notes.

If any tranche of the Subordinated Notes is not regarded as a deposit for the purposes of the Inland Revenue Ordinance (Cap. 112) of Hong Kong and/or holders thereof are not eligible for the tax exemption under such regime, the tax treatment to holders may differ. Investors and holders of any tranche of the Subordinated Notes should consult their own accounting and tax advisers regarding the Hong Kong income tax consequences of their acquisition, holding and disposal of such tranche of the Subordinated Notes.

The Subordinated Notes may be subject to a full or partial Write-off

Investors may lose the entire amount of their investment in any Subordinated Notes in which Write-off upon the occurrence of a Non-Viability Event is specified, which will lead to a full or partial Write-off. Upon the occurrence of a Write-off, the principal amount and any accrued but unpaid interest of such Subordinated Notes will automatically be written down and if there is a full Write-off, the principal amount and any accrued but unpaid interest may be written down completely and such Subordinated Notes will be automatically cancelled.

In addition, the subordination and set off provisions set out in Note Condition 3(c) are effective only upon the occurrence of any winding-up proceedings of the Issuer. In the event that a Non-Viability Event occurs the rights of holders of Subordinated Notes and the Receipts and Coupons relating to them shall be subject to the Write-off pursuant to Note Condition 7(a). This may not result in the same outcome for holders of Subordinated Notes as would otherwise occur under Note Condition 3 upon the occurrence of any winding-up proceedings of the Issuer.

Furthermore, upon the occurrence of a Write-off of any Subordinated Notes, interest will cease to accrue and all interest amounts that were not due and payable prior to the Write-off shall become null and void. Consequently, holders of Subordinated Notes will not be entitled to receive any interest that has accrued on such Subordinated Notes from (and including) the last Interest Payment Date falling on or prior to the Non-Viability Event Notice. Upon the occurrence of a Write-off, no holder of Subordinated Notes may exercise, claim or plead any right to any such amounts written off, and each holder of Subordinated Notes shall be deemed to have waived all such rights to such amounts.

Any such Write-off will be irrevocable and the holders of the Subordinated Notes will, upon the occurrence of a Write-off, not receive any shares or other participation rights of the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Group, or be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or the Group.

No limitation on issuing senior or pari passu securities in respect of Subordinated Notes

There is no restriction on the amount of securities which the Bank may issue and which rank senior to, or *pari passu* with, the Subordinated Notes. The issue of any such securities may reduce the amount recoverable by holders of Subordinated Notes in case of a winding-up of the Bank. The Subordinated Notes are subordinated obligations of the Bank. Accordingly, in the winding-up of the Bank, there may not be a sufficient amount to satisfy the amounts owing to the holders of Subordinated Notes.

The Bank's obligations under Subordinated Notes are subordinated

The payment obligations of the Bank under the Subordinated Notes will rank behind Senior Notes. Subordinated Notes constitute unsecured and subordinated obligations of the Bank and rank *pari passu* without any preference among themselves.

In addition, under statutory requirements prevailing as at the date of this Offering Circular relating to Tier 2 capital for the purposes of the Banking Capital Regulations, any redemption of Subordinated Notes intended to constitute Tier 2 capital (or equivalent) of the Bank prior to its stated maturity, for tax reasons, regulatory reasons or otherwise, is subject to the prior consent of the Monetary Authority at the relevant time, for so long as the consent of the Monetary Authority is a requirement for any such Subordinated Notes to constitute Tier 2 capital (or equivalent) of the Issuer for the purposes of the Banking Capital Regulations.

Limited rights of enforcement and subordination of the Subordinated Notes could impair an investor's ability to enforce its rights or realise any claims on the Subordinated Notes

In most circumstances, the sole remedy against the Issuer available to the holders of the Subordinated Notes to recover any amounts owing in respect of the principal of or interest on the Subordinated Notes will be to institute proceedings for the winding-up of the Issuer in Hong Kong. See "*Terms and Conditions of the Notes – Events of Default and Default*".

The holders of the Subordinated Notes will have no right to accelerate payment of the Subordinated Notes in the case of default in payment or failure to perform a covenant except as they may be so permitted in accordance with the Note Conditions.

The Subordinated Notes will be direct, unconditional, subordinated and unsecured obligations of the Issuer and the rights and claims of the holders of Subordinated Notes shall rank subordinate and junior in right of payment to, and to all claims of:

(a) all unsubordinated creditors of the Issuer (including its depositors); and

(b) all other Non-Preferred Creditors (as defined in the Note Conditions) of the Issuer whose claims are stated to rank senior to the Subordinated Notes or rank senior to the Subordinated Notes by operation of law or contract.

Upon the occurrence of any winding-up proceeding, the rights of the holders of the relevant Subordinated Notes to payments on such Subordinated Notes will be subordinated in right of payment to the prior payment in full of all deposits and other liabilities of the Issuer except those liabilities which rank equally with or junior to the relevant Subordinated Notes. In a winding-up proceeding, the holders of the relevant Subordinated Notes may recover less than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Issuer. As there is no precedent for a winding-up of a major financial institution in Hong Kong, there is uncertainty as to the manner in which such a proceeding would occur and the results thereof. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a risk that an investor in Subordinated Notes will lose all or some of its investment should the Issuer become insolvent. The Subordinated Notes also do not contain provisions which limit the Issuer's ability or the ability of any entity in the Group to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Subordinated Notes.

The subordination of payments under the Subordinated Notes will likely have an adverse effect on the market price of the Subordinated Notes. In addition, as a result of the subordinated payment provisions of the Subordinated Notes, the market price of the Subordinated Notes may be more volatile than the market prices of other debt securities that are not subject to such subordination and may be more sensitive generally to adverse changes in the Issuer's financial condition.

The Subordinated Notes are subject to redemption by the Issuer upon the occurrence of a Capital Event

Subject to the prior consent of the Monetary Authority, the Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time following the occurrence of a Capital Event (as defined in the Note Conditions).

The Monetary Authority from time to time may introduce measures or make proposals to strengthen capital and liquidity regulations with the goal of promoting a more resilient banking sector. It may lead to changes in the requirements for bank capital and certain term subordinated debt may not qualify as regulatory capital beyond a certain time frame. In particular, the Monetary Authority may decide that the Subordinated Notes do not qualify as term subordinated debt for inclusion in regulatory capital base of the Issuer. If the Subordinated Notes do not qualify, the Issuer may choose to redeem the Subordinated Notes (subject to the prior consent of the Monetary Authority) prior to the relevant maturity date pursuant to the Capital Event redemption right.

RISKS RELATING TO PERPETUAL CAPITAL SECURITIES

The terms of the Perpetual Capital Securities contain non-viability loss absorption provisions under which the Perpetual Capital Securities may be written-off

Under the Perpetual Capital Securities Conditions, a Non-Viability Event means the earlier of:

(i) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or

(ii) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon or prior to the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Trustee or the Securityholders) reduce the then prevailing principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security. Although the Issuer has agreed to notify the clearing systems and the Securityholders following the occurrence of a Non-Viability Event, there will be a delay between a Non-Viability Event and the time that the clearing systems and the Securityholders via the clearing systems are notified of the occurrence of the relevant Non-Viability Event through their clearing systems accounts or otherwise. Such delay may exceed several days during which trading and settlement in the Perpetual Capital Securities may continue. Any such delay will not change or delay the effect of a Non-Viability Event on the obligations of the Issuer under the Perpetual Capital Securities or on the rights of the Securityholders. For additional information, see "*Terms and Conditions of the Perpetual Capital Securities – Distribution Restrictions*" and "*Terms and Conditions of the Perpetual Capital Securities – Non-Viability Loss Absorption and Hong Kong Resolution Authority Power in respect of Perpetual Capital Securities*". The notification of a Non-Viability Event is at the discretion of the Monetary Authority and beyond the control of the Issuer. The circumstances in which such discretion is exercised are not limited and may include concerns about the Issuer's capital, funding and/or liquidity levels.

Securityholders should note that any amount that is Written-off upon the occurrence of a Non-Viability Event in accordance with the Perpetual Capital Securities Conditions is permanent and will not be restored under any circumstances, including where the relevant Non-Viability Event ceases to continue. Additionally, a Non-Viability Event may occur on more than one occasion and each Perpetual Capital Securities may be written down on more than one occasion. As the Distribution Rate is calculated on the basis of the principal amount as adjusted following the occurrence of a Non-Viability Event, in the event that such principal amount is permanently reduced by the relevant Write-off, Securityholders will receive less Distributions on their Perpetual Capital Securities. Additionally, upon the occurrence of a Non-Viability Event, Securityholders could risk losing up to the full principal amount of the Perpetual Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.

The application of a non-viability loss absorption feature similar to Perpetual Capital Securities Condition 7(a) (*Non-Viability Loss Absorption upon a Non-Viability Event in respect of Perpetual Capital Securities*) in the Perpetual Capital Securities Conditions has not been tested in Hong Kong and some degree of uncertainty may exist in its application.

Transfers scheduled to settle through Euroclear and Clearstream (the "ICSDs") are expected to be rejected if the scheduled settlement is after any suspension by the ICSDs of clearance and settlement of the Perpetual Capital Securities in connection with a Non-Viability Event Notice. Furthermore, because of time zone differences and the delay between the time when a Non-Viability Event occurs and when the ICSDs receive and process the Non-Viability Event Notice, it is possible that transfers may either (i) fail to settle through the ICSDs even though such transfers were initiated prior to the Non-Viability Event or (ii) are settled through the ICSDs even though such transfers were initiated after the Non-Viability Event

The ICSDs are expected to suspend all clearance and settlement of transfers of the Perpetual Capital Securities by Securityholders after receipt of a Non-Viability Event Notice, and any transfer of the Perpetual Capital Securities that is scheduled to settle after commencement of such suspension is expected to be rejected by the ICSD and will not be settled within the ICSDs.

Although a Non-Viability Event Notice will be sent by the Issuer to the ICSDs and the holder of any Perpetual Capital Securities via the ICSDs after the occurrence of a Non-Viability Event, the records of the ICSDs will not be immediately updated to reflect the Non-Viability Event, and a period of time, which may exceed several days, will be required before the clearance and settlement of transfers of the Perpetual Capital Securities through the ICSDs are suspended. Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after the ICSDs commence such suspension will fail to settle through the ICSDs even though such transfers were initiated prior to the Non-Viability Event. In such circumstances, transferors of the Perpetual Capital Securities would not receive any consideration through the ICSDs in respect of such intended transfer because the ICSDs will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before the ICSDs commence such suspension will be settled through the ICSDs even though such transfers were initiated after the Non-Viability Event. In such circumstances, transferees of the Perpetual Capital Securities may be required to pay consideration through the ICSDs even though, upon the occurrence of a Non-Viability Event, no amounts under the Perpetual Capital Securities will thereafter become due, and such transferees will have no rights whatsoever under the Perpetual Capital Securities to take any action or enforce any rights whatsoever against the Issuer, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Perpetual Capital Securities following a Non-Viability Event will be subject to procedures of the ICSDs that are in place at such time.

The Perpetual Capital Securities are perpetual securities and investors have no right to require redemption

The Perpetual Capital Securities are perpetual and have no maturity date. Securityholders do not have the ability to require the Issuer to redeem their Perpetual Capital Securities, whereas the Issuer can redeem the Perpetual Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Perpetual Capital Securities at any time. The ability of the Issuer to redeem Perpetual Capital Securities is subject to the Issuer obtaining the prior written consent of the Monetary Authority (if then required) to the redemption, to the extent such consent is required under the Banking Capital Regulations (as defined in the Perpetual Capital Securities Condition), or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto.

This means that Securityholders do not have the ability to cash in their investment, except if the Issuer exercises its right to redeem the Perpetual Capital Securities or by selling their Perpetual Capital Securities. However, there can be no guarantee that the Issuer will be able to meet the conditions for redemption of Perpetual Capital Securities. Securityholders who wish to sell their Perpetual Capital Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Perpetual Capital Securities.

Additionally, upon the occurrence of the events described in Perpetual Capital Securities Condition 6(c) (*Redemption for Taxation and Tax Deductibility Reasons*) (a "**Tax Event**") and Perpetual Capital Securities Condition 6(e) (*Redemption for Regulatory Reasons in respect of Perpetual Capital Securities*) (a "**Capital Event**") of the Perpetual Capital Securities Conditions, such as a Tax Event or a Capital Event, the Perpetual Capital Securities may be redeemed at their principal amount together (if appropriate) with any Distribution accrued but unpaid to (but excluding) the date fixed for redemption, as more particularly described in the Conditions. Also, if any Non-Viability Event occurs, as more fully described in Perpetual Capital Securities Condition 7(a) (*Non-Viability Loss Absorption upon a Non-Viability Event in respect of Perpetual Capital Securities*) of the Perpetual Capital Securities Conditions, a holder of any Perpetual Capital Securities may lose up to the full principal amount of the Perpetual Capital Securities. There can be no assurance that Securityholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Perpetual Capital Securities.

The Perpetual Capital Securities may be redeemed at the Issuer's option on the Perpetual Capital Securities Optional Redemption Dates and every six months thereafter or on the occurrence of certain other events

The Perpetual Capital Securities are redeemable at the option of the Issuer on the Perpetual Capital Securities Optional Redemption Dates (as defined in the Perpetual Capital Securities Conditions) and on any Distribution Payment Date (as defined in the Perpetual Capital Securities Conditions) thereafter, at their principal amount together (if appropriate) with any Distribution accrued but unpaid to (but excluding) the date fixed for redemption. Additionally, upon the occurrence of a Tax Event or a Capital Event, the Perpetual Capital Securities may be redeemed at their principal amount together (if appropriate) with any Distribution accrued but unpaid to (but excluding) the date fixed for redemption, as more particularly described in the Conditions. The Issuer shall not redeem any of the Perpetual Capital Securities unless the prior written consent of the Monetary Authority has been obtained, and there is no assurance that such consent will be obtained by the Issuer.

The date on which the Issuer elects to redeem the Perpetual Capital Securities may not accord with the preference of individual securityholders. This may be disadvantageous to the securityholders in light of market conditions or the individual circumstances of the securityholders of the Perpetual Capital Securities. There can be no assurance that securityholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Perpetual Capital Securities.

The resolution regime in Hong Kong may override the contractual terms of the Perpetual Capital Securities

The Monetary Authority is the relevant Hong Kong Resolution Authority in relation to banking sector entities in Hong Kong, such as the Issuer. The Monetary Authority's powers under FIRO include, but are not limited to, powers to reduce, cancel or convert all or a part of the principal amount of, or interest on, the Perpetual Capital Securities, and powers to amend or alter the contractual provisions of the Perpetual Capital Securities. Whilst the FIRO sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on the Perpetual Capital Securities cannot currently be fully accurately assessed. The operation of the resolution regime in Hong Kong may affect the rights of the Securityholders and could result in the Securityholders losing their rights in relation to accrued and future interest without compensation.

The Issuer's obligations under the Perpetual Capital Securities are subordinated

The Issuer's obligations under the Perpetual Capital Securities constitute direct, subordinated and unsecured obligations of the Issuer, which rank *pari passu* with Parity Obligations. Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation (as defined in the Perpetual Capital Securities Conditions), the rights of the Securityholders to payment of principal and Distributions on the Perpetual Capital Securities, and any other obligations in respect of the Perpetual Capital Securities, are expressly subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Perpetual Capital Securities Condition 3(b) (*Subordination of Perpetual Capital Securities*) of the Perpetual Capital Securities Conditions and will rank senior to all Junior Obligations. In the event of a shortfall of funds on a Winding-Up, there is a risk that an investor in the Perpetual Capital Securities will lose all or part of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Perpetual Capital Securities. The Perpetual Capital Securities also do not limit the Issuer's ability, or the ability of any entity in the Group, to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Perpetual Capital Securities.

Payments of Distribution are discretionary, and Distributions are non-cumulative

Payment of Distributions on any Distribution Payment Date is at the sole discretion of the Issuer. Subject to the Conditions, the Issuer may elect to or, in certain cases, be required to cancel any Distribution on any Distribution Payment Date. Additionally, the Issuer will not be obliged to pay, and will not pay, any Distribution upon the occurrence of a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event. Cancelled Distributions will not be reinstated and will not constitute an event of default. Additionally, Distributions would only be paid out of such amounts for the time being available to the Issuer for distribution in compliance with Section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as of the date of the Issuer's audited balance sheet last preceding the relevant Distribution Payment Date, and subject to the Monetary Authority's then current Banking Capital Regulations as applicable to the Issuer on the relevant Distribution Payment Date, provided that such amounts are subject to the Issuer's reasonable determination of the Available Amount as at any Distributable Reserves Determination Date, as further set out in Conditions. As of the date of this Offering Circular, pursuant to Section 297(1) of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of Section 297 of the Companies Ordinance (Cap. 622) of

Hong Kong, the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

Any Distributions which are not paid on the applicable Distribution Payment Date following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off shall not accumulate or be payable at any time thereafter, whether or not funds are or subsequently become available. Securityholders will have no right thereto whether in a bankruptcy or dissolution as a result of the insolvency of the Issuer or otherwise. Therefore, any Distributions not paid following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off will be lost and the Issuer will have no obligation to make payment of such Distributions or to pay interest thereon.

If Distributions are not paid for whatever reason, the Perpetual Capital Securities may trade at a lower price. If a holder of any Perpetual Capital Securities sells its Perpetual Capital Securities during such a period, it may not receive the same return on investment as a holder of any Perpetual Capital Securities who continues to hold its Perpetual Capital Securities until Distributions are resumed.

There are limited remedies for non-payment under the Perpetual Capital Securities

Any scheduled Distribution will not be due if the Issuer elects not to pay the Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment of principal or any Distributions on any of the Perpetual Capital Securities has become due and such failure continues for a period of 14 days in the case of Distribution or seven days in the case of principal; or where a final and effective order is made or resolution is passed by a competent judicial authority in Hong Kong for the winding-up or similar proceeding in respect of the Issuer. The only remedy against the Issuer available to any Securityholders for recovery of amounts in respect of the Perpetual Capital Securities following the occurrence of a payment default after any sum becomes due in respect of the Perpetual Capital Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Issuer's payment obligations arising from the Perpetual Capital Securities. In such a winding-up, the claims of the holder of any Perpetual Capital Securities will be subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Perpetual Capital Securities Condition 3 (*Status, Subordination and Qualification of the Perpetual Capital Securities*) of the Conditions.

The Perpetual Capital Securities are subject to restrictions on transfer and resale

The Perpetual Capital Securities will not be registered under the Securities Act or the securities or blue sky laws of any state of the United States. The Perpetual Capital Securities are being offered, and may be resold, outside of the United States within the meaning of and in compliance with Regulation S. Consequently, the Perpetual Capital Securities are subject to restrictions on transfer and resale, which may negatively affect the liquidity of the Perpetual Capital Securities.

A downgrade in ratings may affect the market price of the Perpetual Capital Securities

The Perpetual Capital Securities that may be issued under the Programme are expected to be rated "Ba3" by Moody's. This rating may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Perpetual Capital Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Rating agencies may also revise or replace entirely the methodology applied to derive credit ratings. There is a risk that the credit rating of the Issuer and of the Perpetual Capital Securities may change as a result of changes in the Issuer's operating performance or capital structure, or for some other reason. Moreover, no assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant or if a different methodology is applied to derive such credit ratings. This could affect the market price and the liquidity of the Perpetual Capital Securities.

RISKS RELATING TO RMB-DENOMINATED INSTRUMENTS

Instruments denominated in RMB ("**RMB Instruments**") may be issued under the Programme. Prospective investors should carefully take into account the following considerations, in addition to the other information contained in this Offering Circular, before investing in the RMB Instruments.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of the RMB Instruments

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. However, there has been significant reduction in control by the PRC government it in recent years, particularly over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for settlement of capital account items, such as capital contributions, debt financing and securities investments, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filing with the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

Although the PBoC has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Instruments denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the RMB Instruments and the Issuer's ability to source Renminbi outside the PRC to service the RMB Instruments

As a result of the restrictions imposed by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong, and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC remains limited.

There are restrictions imposed by the PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC, although PBoC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from the PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Instruments. To the extent the Issuer is required to source Renminbi in the offshore market to service the RMB Instruments, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Remittance of proceeds into or out of the PRC in Renminbi may be difficult

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds outside the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the RMB Instruments, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Investment in the RMB Instruments is subject to exchange rate risks

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBoC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Instruments unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Instruments in that foreign currency will decline.

Investment in RMB Instruments is subject to interest rate risks

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC laws and regulations and prevailing market conditions.

As RMB Instruments may carry a fixed interest rate, the trading price of RMB Instruments will consequently vary with the fluctuations in the Renminbi interest rates. If holders of RMB Instruments propose to sell their RMB Instruments before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of the RMB Instruments may only be made to investors in the manner specified in such RMB Instruments

All payments to investors in respect of the RMB Instruments will be made solely:

(i) for so long as the RMB Instruments are represented by global certificates or global notes held in the CMU, to the person for whose account a relevant interest in that global note or, as the case may be, that global certificate is credited as being held with the CMU in accordance with prevailing CMU rules and procedures;

(ii) for so long as the RMB Instruments are represented by global certificates or global notes held with the common depositary, for Euroclear and Clearstream or any alternative clearing system, by transfer to a Renminbi bank account maintained by or on behalf of the holder with a bank in Hong Kong, in accordance with prevailing Euroclear and Clearstream rules and procedures or those of such alternative clearing system;

(iii) for so long as the RMB Instruments are in definitive form, by transfer to a Renminbi bank account maintained by or on behalf of the holder with a bank in Hong Kong, in accordance with prevailing rules and regulations.

The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by check or draft or by transfer to a bank account in the PRC).

There may be PRC tax consequences with respect to an investment in the RMB Instruments

In considering whether to invest in the RMB Instruments, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the holder's investment in the RMB Instruments may be materially and adversely affected if the holder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those RMB Instruments.

USE OF PROCEEDS

The Bank intends to use the net proceeds from the issue of each Tranche of Instruments for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

As at the date of this Offering Circular, the Bank has an issued share capital of 972,862,226 ordinary shares.

The following table sets forth the Bank's unaudited consolidated capitalisation and indebtedness as at 31 December 2024.

	As at 31 December 2024	
	HK$	**U.S.$[1]**
	(audited)	**(unaudited)**
	(HK$'000)	*(U.S.$'000)*
Indebtedness		
Deposits from customers	247,144,076	31,815,254
Deposits and balances of banks	17,444,171	2,245,616
Loan capital	5,958,446	767,040
Total indebtedness	270,546,693	34,827,911
Capital resources		
Share capital	21,030,884	2,707,340
Additional equity instruments	2,316,681	298,230
Reserves	14,467,369	1,862,408
Total capital resources	37,814,934	4,867,977
Total capitalisation[2]	308,361,627	39,695,888

Notes:

(1) Translation of Hong Kong dollar to U.S. dollar amounts were made at a rate of U.S.$1.00 to HK$7.7681.

(2) Total capitalisation represents the sum of total indebtedness and total capital resources.

There has been no material change in the Bank's total consolidated capitalisation or indebtedness since 31 December 2024.

DESCRIPTION OF THE BANK

INTRODUCTION

The Bank is a full-service bank which operates primarily in Hong Kong. As at the date of this Offering Circular, the Bank operates a network of 33 branches in Hong Kong, as well as 1 branch in Macau, 17 branches and sub-branches in Mainland China, including Guangzhou Branch, Beijing Branch, Shenzhen Branch, Shanghai Branch and Shantou Branch, and Guangzhou Haizhu Sub-Branch, Guangzhou Panyu Sub-Branch, Guangzhou Development Zone Sub-Branch, Foshan Sub-Branch, Shunde Sub-Branch, Nansha Sub-Branch, Guangdong-Macao In-depth Cooperation Zone in Hengqin Sub-Branch, Dongguan Sub-Branch, Zhongshan Sub-Branch, Shenzhen Nanshan Sub-Branch, Shenzhen Qianhai Sub-Branch and Shanghai Hongqiao Sub-Branch, and has branches in Guangzhou, Beijing, Shenzhen, Shanghai, Shantou and Macau, with sub-branches in Guangzhou Haizhu District, Guangzhou Panyu District, Guangdong Zhongshan District, Foshan Nanhai District, Foshan Shunde District, Nansha Area of Guangdong Pilot Free Trade Zone, Hengqin Area of Guangdong Pilot Free Trade Zone, Dongguan Nancheng District, Shenzhen Nanshan District, Shenzhen Qianhai District and Shanghai Hongqiao District. The Bank was listed on the Main Board of the HKSE (Stock code: 01111) in July 1994. On 27 September 2021, Yue Xiu Enterprises (Holdings) Limited completed its privatisation process of the Bank, which henceforth became a wholly-owned subsidiary of the Yue Xiu Group and was delisted from the Main Board of the HKSE on 30 September 2021.

The Bank provides a wide range of corporate and personal banking services and other related financial services. Corporate and personal banking services provided by the Bank primarily include lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit card services and personal wealth management services. The Bank also provides automated digital banking services to customers. Other banking services offered by the Bank include remittance and money exchange, safe deposit boxes, auto pay and direct debit services. The Bank also engages in financial markets activities, which mainly include inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Bank and centralised cash management as well as foreign exchange trading services, forward contracts and foreign currency funding swaps. Securities business of the Bank includes securities trading, stockbroking and futures broking. The Bank also offers investment holding, insurance, other investment advisory services and property investments through certain of its wholly-owned subsidiaries.

Since its inception in 1948, the Bank has expanded steadily and believes that it has successfully established itself as a reliable and prudent bank in Hong Kong as well as the other jurisdictions in which it operates. The Bank was ranked 339th in the "Top 1000 World Banks" list issued by the British magazine "The Banker" in 2025, making it one of the top 400 banks for the seventh consecutive year. In the same year, the Bank also received the Employer of the Year – Grand, and Best Reward & Recognition Strategy Award – Grand, presented by the CTgoodjobs. Despite its relatively small size, the Bank enjoys long-standing relationships with many of its key customers and believes that it possesses a strong and stable deposit base. As at 31 December 2024, the Bank's total assets, total equity, loans and advances to customers and customer deposits amounted to HK$321,864.1 million (U.S.$41,434.1 million), HK$39,194.1 million (U.S.$5,045.5 million), HK$161,250.4 million (U.S.$20,758.0 million) and HK$247,144.1 million (U.S.$31,815.3 million), respectively.

For the year ended 31 December 2024, the Bank recorded a profit for the year of HK$1,591.0 million (U.S.$204.8 million). As at 31 December 2024, the Bank's total capital ratio and loan-to-deposit ratio were 20.40% and 63.55%, respectively, and its average liquidity maintenance ratio for the year ended 31 December 2024 was 66.52%. For the year ended 31 December 2024, the Bank achieved a return on shareholder's equity of 3.55%. See "*Summary Financial Information – Other Selected Financial Data*".

The Bank maintains banking relationships with approximately 500 foreign and local banks and provides services including Hong Kong dollar payment services, trade settlement and financing, money transfers and guarantees.

HISTORY

The Bank was founded in 1948 in Hong Kong under the name of "Liu Chong Hing Savings Bank" with the objectives of promoting savings and providing a wide range of consumer, retail and commercial banking products and services to the public. In 1955, it was granted a banking licence by the Monetary Authority and in the same year, it was formally incorporated under the name of Liu Chong Hing Bank Limited.

In 1973, The Bank of Tokyo-Mitsubishi UFJ, Ltd (formerly known as "The Mitsubishi Bank, Limited" and "The Bank of Tokyo-Mitsubishi, Ltd") acquired a 25% interest in the Bank. Through this affiliation, the Bank enjoyed an increase in Japanese and correspondent banking services. In the same year, Liu Chong Hing Investment Limited acquired a majority interest in the Bank of 57.67%, through its wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited. Liu Chong Hing Investment Limited is a public company which has been listed on the HKSE since 1972 and is principally engaged in property development and investment activities. In 1975, the Bank introduced online computerised services for all of its deposit accounts, which were subsequently upgraded in 1980 and 1987. The Bank believes that it was one of the first locally incorporated banks to provide such services.

In June 1982, the Bank introduced through-the-wall ATMs to its operations and in January 1986, the Bank's ATM network was linked to the Joint Electronic Teller Services Limited ("**JETCO**") network comprising a central data processing system connected to ATMs belonging to 44 banks in Hong Kong, which enabled the Bank to use ATMs of other banks in the system. In October 1984, the Bank became a founding member of the Easy Pay System, an electronic retail point of sale payment system.

As part of its continuing drive to capitalise on opportunities created by the further liberalisation of the financial markets in the PRC and the increased business activity between the PRC and Hong Kong, the Bank set up a representative office in Shanghai in 1988. In April 1993, the Bank established a full-service foreign bank branch in Shantou in the Guangdong province of the PRC.

In October 1993, the Bank introduced fully automated telephone banking services for its retail customers.

In 1994, Liu Chong Hing Estate Company, Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd entered into a shareholders' agreement, which enabled the Bank to gain access to updated technology, expertise in international banking, management know-how, market development and a firm foundation for future growth, through mutual co-operation with and support from The Bank of Tokyo-Mitsubishi UFJ, Ltd. On 11 July 1994, the Bank was publicly listed on the HKSE.

In 1997, the Bank established a branch in Macau.

In 1999, the Bank formed Bank Consortium Holding Limited ("**Bank Consortium**") with nine other local banks in Hong Kong with the objective of providing quality Mandatory Provident Fund ("**MPF**") services (with both the Master Trust Scheme and the Industry Scheme) through the Bank Consortium Trust Company Limited, a wholly-owned subsidiary of the Bank Consortium. In the same year, the Bank established a representative office in Guangzhou, PRC.

In December 2006, the Bank changed its name from "Liu Chong Hing Bank Limited" to "Chong Hing Bank Limited". On 27 December 2006, the Bank relocated its head office operations to a newly redeveloped building along 24 Des Voeux Road Central, which has been named "Chong Hing Bank Centre".

On 14 February 2014, Guangzhou Yue Xiu Holdings Limited through its indirect wholly-owned subsidiary Yuexiu Financial acquired a 75% interest in the Bank. Guangzhou Yue Xiu Holdings Limited is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government and is one of the leading state-owned enterprise groups in Guangzhou by total assets. The Yue Xiu Group has since been providing continued support to the Bank through its ample financial resources.

On 9 May 2016, the Bank opened its Guangzhou branch to oversee the network of branches in the PRC and on 30 November 2016 the Bank also opened a branch in Shenzhen. The Shanghai branch, the Bank's first branch outside the Guangdong province, opened in November 2019. These branches solidify the Bank's development plans in the PRC and pave the way for ongoing expansion in the PRC with a focus on professional and speciality banking as well as service differentiation.

In 2018, the Bank celebrated its 70th anniversary and successfully secured a new strategic investor. On 21 August 2018, the Bank completed a placement of 70,126,000 shares to Guangzhou Metro Investment Finance (HK) Limited at a subscription price of HK$14.26 per share. On 26 September 2018, the Bank completed a further rights issue of 249,900,094 rights shares at a subscription price of HK$14.26 per rights share on the basis of one rights share for every two shares held on 30 August 2018 on a non-underwritten basis raising over HK$3.6 billion for the Bank, of which 240,019,500 rights shares were allocated to Yuexiu Financial.

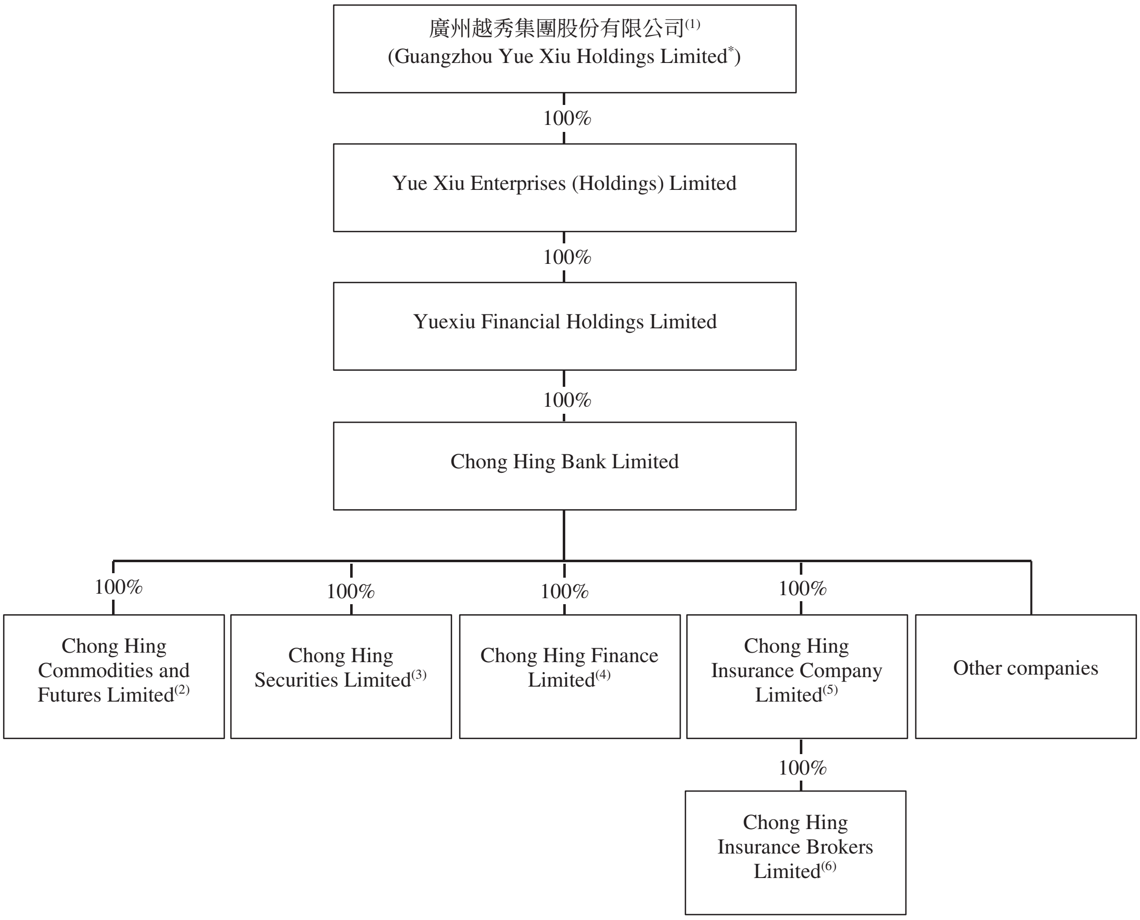
The Bank further improved its network in the Greater Bay Area with the opening of its Foshan Chancheng sub-branch and Dongguan sub-branch in February 2020 and December 2020 respectively.

In 2021, the Bank's Shenzhen branch and Tianhe sub-branch (now renamed as the Guangzhou Haizhu sub-branch) have been relocated. In addition, the Bank's new Shenzhen Nanshan sub-branch was officially opened on 12 July 2021.

On 18 May 2021, Yue Xiu Enterprises (Holdings) Limited and the Bank jointly issued an announcement in relation to, among other things, the proposal for the privatisation of the Bank by Yue Xiu Enterprises (Holdings) Limited by way of a scheme of arrangement under Section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and for withdrawal of listing of the shares of the Bank on the HKSE.

On 27 September 2021, Yue Xiu Enterprises (Holdings) Limited completed the acquisition of the public equity of the Bank. Following the conclusion of the privatisation process, the Bank became a wholly-owned subsidiary of the Yue Xiu Group, and was then delisted from the HKSE on 30 September 2021. In December 2021, the Bank received a capital injection of HK$5.3 billion from the Yue Xiu Group. This marks the first capital injection by the Yue Xiu Group after the Bank became its wholly-owned subsidiary, which significantly enhanced the Bank in terms of its capital adequacy ratio, risk management capability and asset growth potential, enabling the Bank to achieve future business development and operational enhancement.

CORPORATE STRUCTURE



Notes:

(1) State-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government.

(2) Registered with The Hong Kong Futures Exchange Limited as a participant.

(3) Registered with The Stock Exchange of Hong Kong Limited as a participant.

(4) Licensed under the Hong Kong Banking Ordinance as a deposit-taking company.

(5) Licensed under the Hong Kong Insurance Ordinance as an insurance company.

(6) Licensed under the Hong Kong Insurance Ordinance as an insurance broker company.

THE YUE XIU GROUP

The Yue Xiu Group is one of the largest state-owned enterprises in Guangzhou by total assets. The Yue Xiu Group's banking and finance holdings include the Bank and its stake in Guangzhou Yuexiu Financial Holdings Group Co. Ltd., a company listed on the Shenzhen Stock Exchange. Guangzhou Yuexiu Financial Holdings Group Co. Ltd. had a market capitalisation of approximately RMB35.22 billion as at 31 December 2024. Guangzhou Yuexiu Financial Holdings Group Co., Ltd. also engages in financial leasing, funds and private equity investment and securities dealing.

Yue Xiu Enterprises (Holdings) Limited

Yue Xiu Enterprises (Holdings) Limited's business spans transportation infrastructure, real estate, property management, banking and financial services, manufacturing and other industries. Yue Xiu Enterprises (Holdings) Limited conducts its business through various subsidiaries and affiliates including, among others, Yuexiu Transport Infrastructure Limited ("**Yuexiu Transport**"), Yuexiu Property Company Limited ("**Yuexiu Property**"), Yuexiu Real Estate Investment Trust ("**Yuexiu REIT**"), Yuexiu Services Group Limited ("**Yuexiu Services**") and the Bank.

Yuexiu Transport

Yuexiu Transport, a company listed on the HKSE, is principally engaged in the investment, operation and management of toll expressways and bridges in the Guangdong province and other high-growth provinces in the PRC. As at 31 December 2024, Yuexiu Transport had a total of 16 investments in its operating expressways and bridge projects, which include expressways and bridges which it owns and operates solely and in collaboration with other operators. Yuexiu Transport's projects are located in the Guangdong, Hubei, Hunan and Henan provinces, Guangxi Zhuang Autonomous Region and Tianjin Municipality. As at 31 December 2024, the total attributable toll length of Yuexiu Transport's expressways and bridges was approximately 1,002.8 km. As at 31 December 2024, Yuexiu Transport's market capitalisation was approximately HK$6.44 billion (U.S.$0.83 billion).

Yuexiu Property

Yuexiu Property was listed on the HKSE in December 1992. Yuexiu Property's main business is property development and investment with its operations mainly concentrated in the Greater Bay Area, Eastern China Region, Central China Region, Northern China Region and Southwestern China Region. As at 31 December 2024, the Yuexiu Property's total gross floor area of properties under development and undeveloped properties was approximately 19.71 million square metres. Yuexiu Property has accumulated more than 30 years of experience in property development, and has established strong market position with good brand name. As at 31 December 2024, Yuexiu Property's market capitalisation was approximately HK$20.49 billion (U.S.$2.64 billion).

Yuexiu REIT

As a Hong Kong real estate investment trust, Yuexiu REIT's property portfolio consists of six commercial properties located in Guangzhou, one commercial property in Shanghai, one commercial property in Wuhan, one commercial property in Hangzhou and two floors of a commercial building located in Hong Kong with a total area of ownership of approximately 1,184,156.5 square metres and had a market value, as determined by an independent professional valuer, of RMB42.308 billion as at 31 December 2024. As at 31 December 2024, Yuexiu REIT's market capitalisation was approximately HK$4.70 billion (U.S.$0.61 billion).

Yuexiu Services

Yuexiu Services was listed on the HKSE in June 2021. Yuexiu Services and its subsidiaries are primarily engaged in the provision of non-commercial property management and value-added services and commercial property management and operational services in the PRC. As at 31 December 2024, Yuexiu Services and its subsidiaries had 437 projects under management with total gross floor area under management of 69 million sq.m. and 508 contracted projects with contracted gross floor area 89 million sq.m. covering 48 cities in the four regions of China, namely the Greater Bay Area, East China, Central and West China and North China. As at 31 December 2024, Yuexiu Services' market capitalisation was approximately HK$4.96 billion (U.S.$0.64 billion).

THE BANK'S PRINCIPAL SUBSIDIARIES AND ASSOCIATES

As at the date of this Offering Circular, the Bank's principal subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Finance Limited, Chong Hing Information Technology Limited, Chong Hing Insurance Brokers Limited, Chong Hing Insurance Company Limited, Chong Hing (Nominees) Limited, Chong Hing Securities Limited, Gallbraith Limited, Hero Marker Limited and Top Benefit Enterprise Limited. The Bank offers futures and securities trading and insurance services through its wholly-owned subsidiaries, Chong Hing Commodities and Futures Limited, Chong Hing Securities Limited, Chong Hing Insurance Brokers Limited and Chong Hing Insurance Company Limited. The Bank's other wholly-owned subsidiaries' business activities include property investment (Gallbraith Limited, Top Benefit Enterprise Limited and Hero Marker Limited) and the provision of nominee services (Chong Hing (Nominees) Limited).

The Bank also holds strategic investments in a number of associates which include Bank Consortium, BC Reinsurance Limited and Hong Kong Life Insurance Limited. Bank Consortium, a 13.3% associate, offers a wide range of services including investment holding and provision of trustee, and administration and custodian services for retirement schemes, which facilitates the Bank to offer MPF services. BC Reinsurance Limited and Hong Kong Life Insurance Limited, a 21.0% and a 16.7% associate of the Bank, respectively, offer reinsurance and life insurance underwriting services, which enhance the insurance services offered by the Bank. The Bank will continue to selectively consider suitable opportunities for strategic investments as they arise in the future.

COMPETITIVE STRENGTHS

The Bank believes that the following factors contribute to its strong competitive position:

Uniquely Positioned and Consistently Profitable Banking Franchise

The Bank possesses a strong retail franchise, which provides the Bank with a stable and low-cost funding base. The Bank's market share of customers' deposit is 1.4% in 2024. The Bank has also attained substantial growth in the number of affluent retail customers with assets exceeding HK$1 million. In particular, a new segment brand named "Exceed Banking" was launched in April 2021 to offer comprehensive wealth management packages to customers with total assets of HK$1 million or more. This enables the Bank to lower its cost of funding and thereby improve its profitability and capital efficiency. Over the Bank's 77-year history, the Bank has also developed close relationships with the local business community in Hong Kong. Industrial, commercial and financial industries have traditionally been the Bank's core lending markets, with loans outside Hong Kong and trade finance increasing in importance in recent years.

In addition, the Bank is in a strategic position to further strengthen its cross-border RMB business. The Bank has had a presence in the PRC since 1988 and currently has branches in Guangzhou, Beijing, Shenzhen, Shanghai and Shantou, with sub-branches in Guangzhou Haizhu District, Guangzhou Panyu District, Guangzhou Development Zone District, Guangdong Zhongshan District, Foshan Nanhai District, Foshan Shunde District, Nansha Area of Guangdong Pilot Free Trade Zone, Hengqin Area of Guangdong Pilot Free Trade Zone, Dongguan Nancheng District, Shenzhen Nanshan District, Shenzhen

Qianhai District and Shanghai Hongqiao District. Leveraging on the wide network and resources of the Yue Xiu Group, the Bank's sole shareholder, the Bank expects to increase its RMB deposit base and loan portfolio through the Guangzhou, Shenzhen as well as other Mainland branches and its corporate banking services in Hong Kong. In light of the RMB liberalisation policy, a number of financial liberalisation measures eagerly anticipated by the market have been piloted in the Greater Bay Area in order to further deepen and expand the interconnection between the financial markets of the PRC and Hong Kong. The PRC's RMB liberalisation policy is expected to create further new opportunities for the Bank, which will enable the Bank to broaden its customer base and more effectively increase its share of the PRC market by offering more RMB-related services such as offshore RMB-denominated deposits and financial products as well as offshore interbank lending, exchange of RMB and settlement and clearing services of RMB transfers. In addition to the Bank's current network of five branches and twelve sub-branches in the PRC, the Bank also aims to expand its PRC and cross-border business in the coming years and, subject to regulatory approval, to open further sub-branches in key cities in the Guangdong province as well as in other locations in the PRC. The extension of the Bank's network in the PRC will enable the Bank to penetrate and develop business in the major economically active regions in the PRC including Pearl River Delta, Yangtze River Delta and Beijing-Tianjin-Hebei regions.

Several upward economic development trends have been observed in Greater Bay Area cities in 2024. In particular, Guangzhou's GDP rose by 2.1% year-on-year as the city's fixed asset investment grew rapidly and the service industry recovered steadily and Shenzhen's GDP rose by 5.8% year-on-year as the city's export volume of commodity trade reached a new high, with gross economic output exceeding RMB3.68 trillion. The Bank proactively integrates into the strategic planning of the Greater Bay Area, continues to strengthen the synergies of the financial institutions in the Guangdong province, and launches and optimises cross-border products continuously to promote the steady development of cross-border business. In 2024, the cross-border settlement of PRC branches and sub-branches increased by 41.65% as compared with 2023, reaching RMB216.76 billion; Guangzhou branch, as the management bank in the PRC, was granted for the first time the highest rating in foreign exchange activities by regulatory authorities; and the Shenzhen branch implemented the Bank's first cross-border RMB forfeiting asset transfer business.

Consistent and Stable Profitability

The Bank has recorded consistent earnings and profitability even during financial downturns. This is attributable to the Bank's prudent business model and competitiveness in the local banking industry. The Bank has maintained a relatively stable net interest margin with net interest margin lowering from 1.74% to 1.63% between 2023 and 2024. Additionally, net non-interest income made up 20.4% of the Bank's operating income for the year ended 31 December 2024, and this reflects the Bank's diversified sources of income, which enhances its earnings stability.

The Bank's loans and advances to customers was HK$166.7 billion (U.S.$21.5 billion), HK$162.2 billion (U.S.$20.9 billion) and HK$161.3 billion (U.S.$20.8 billion) as at 31 December 2022, 2023 and 2024, respectively, which represented a slight decrease of 2.7% and 0.6% as compared to the same period in 2022 and 2023, respectively. The Bank continued to maintain prudent management of credit risk exposure with sound asset quality of loans and advances. Deposits from customers was HK$223.5 billion (U.S.$28.8 billion), HK$239.3 billion (U.S.$30.8 billion) and HK$247.1 billion (U.S.$31.8 billion) as at 31 December 2022, 2023 and 2024, respectively, which represented an increase of 7.1% and 3.3% as compared to the same period in 2022 and 2023, respectively. The stable deposit base achieved by the Bank has allowed it to balance loan growth, wealth management and cross-border financial business needs.

The Bank has taken a prudent approach with respect to maintaining its high-quality debt securities portfolio with 83.2% of debt securities held by the Bank being rated A3 (or equivalent) or above. The Bank's cost-to-income ratio was 33.19% as at 31 December 2024 as the Bank has prudently managed costs and strived for optimised procedures and efficiency gains. The Bank's increase in consolidated profit for the year ended 31 December 2024 was mainly contributed by the increase in net fee and commission income, growth in net income from trading and investments, and decrease in net impairment losses on financial assets, and was partly offset by the impact on declining interest rates and increased operational costs. Profit attributable to the equity owners of the Bank amounted to HK$1,591.0 million (U.S.$204.8 billion) for the year ended 31 December 2024, representing an increase of 10.35% compared to the same period in 2023.

Solid Asset Quality and Capital Base

The Bank believes that it has consistently maintained strong capital fundamentals over the years, which has allowed it to generally remain profitable in spite of periodic industry and general economic downturns, such as the 2008 global financial crisis. The Bank's capital base consists mainly of Tier 1 capital, which has helped solidify the Bank's profitability and liquidity management. As at 31 December 2024, the Bank had a total capital ratio of 20.40%. With the proactive and effective management of terms and structures of assets and liabilities, the Bank managed to keep a healthy liquidity and reduce the level of loan-to-deposit ratio to 63.55% as at 31 December 2024, which enables the Bank to cover any unforeseen funding requirements with sufficient liquidity.

The Bank has a well-established and prudent credit risk management framework. Despite the global economic uncertainty and the specific risks affecting certain industries which resulted in an increase in the Bank's non-performing loan ratio as at 31 December 2024 to 2.84%, the Bank believes that its long-term capital and liquidity management policies will provide the Bank with greater flexibility in order to meet capital needs from any future market or business challenges and face changes in market conditions.

Robust and Prudent Risk Management System

The Bank believes that maintaining robust and prudent corporate governance standards is imperative to the effective and efficient operation of the Bank. The Bank has therefore appointed a number of independent and non-executive directors, and established various committees to assist the Board in managing the Bank. As at 31 December 2024, the Board contains three non-executive directors and three independent non-executive directors. There is a strong independent element on the Board that ensures the independence and objectivity of the decisions of the Board, as well as the thoroughness and impartiality of the Board's oversight of the management.

The Bank also adopts and implements corresponding measures to ensure compliance with relevant regulations and regulatory requirements in order to maintain high-quality corporate governance. In particular, the Bank continuously strengthens its risk management and internal control capabilities by improving its policies and procedures and introducing advanced risk management tools. For example, the Bank's Risk Management Committee, which oversees all risk management practices of the Bank, has implemented a management reporting process which allows the Bank to timely identify, monitor and address its asset quality. The Bank maintains strict internal processes regarding credit approval, and believes that its focus on internal control and risk management systems has enabled the Bank to maintain the quality of its loan portfolio.

Strong Support from the Yue Xiu Group and Great Synergies with Shareholders

The Bank enjoys strong support from its sole shareholder, the Yue Xiu Group. The Yue Xiu Group is one of the largest state-owned enterprises in Guangzhou by total assets (See "*Description of the Bank – The Yue Xiu Group*"). Through leveraging on the client network of the Yue Xiu Group, the Bank has strengthened, and plans to continue strengthening its cross-border trade finance and services to PRC-related corporates in Hong Kong as well as expanding the Hong Kong dollar and RMB loan business to serve PRC-related in-bound and/or out-bound business needs of the Bank's customers in the PRC and Hong Kong. The Bank expects the Guangzhou and Shenzhen branches, coupled with the Yue Xiu Group's network, to continue to gain deposits and loan business in the area, which can further drive the growth and diversification of the Bank.

To better capitalise on the support of the Yue Xiu Group and its strong connections in the PRC, in 2021, the Bank established the "Chong Hing Bank Synergy Committee". The Bank aims to proactively look for business synergy opportunities between the Bank and the Yue Xiu Group. Successfully doing so will allow the Bank to leverage advantages provided by this relationship and facilitate the development of synergistic businesses and customer relationship management. By utilising such opportunities from the Yue Xiu Group and enhancing business opportunities from cross-referral, the Bank has started approaching new customers to maximise the benefits of cross-selling and value-added sales.

In December 2021, the Yue Xiu Group injected HK$5.3 billion into the Bank, which marks the first capital injection following the Yue Xiu Group's privatisation of the Bank. From 2022 to 2024, the Yue Xiu Group injected an additional HK$5.8 billion into the Bank. Such capital injection secured the capital replenishment for the Bank, significantly improved the capital adequacy ratio of the Bank and thereby laying a solid capital foundation for the Bank's business expansion and long-term development.

Experienced Directorate and Senior Management Team

Much of the Bank's success is attributable to the strength of its directorate and senior management team. The composition of the Board is well balanced with each director having sound board level experience and a diverse range of business, banking and professional expertise relevant to the business operations and development of the Group. Most of the Bank's senior officers also have broad experience in domestic and international banking. The Bank also engages in continuous succession planning for its directors and key management positions to ensure smooth transition and handover of duties when necessary. The Bank believes that the experience of its directorate and senior management team is a key strength as the Bank continues to improve its operating performance and guide the Bank's growth and expansions strategies. See "*Board of Directors and Executives*".

STRATEGIES

The Bank's long-term strategy is to continue to strengthen its foundation, enhance its overall competitiveness, expand its operations both locally in Hong Kong and in the PRC and provide its customers with quality and comprehensive financial and banking products and services.

The major components of the Bank's strategic plan are as follows:

Expand the Bank's Presence, Grasp Business Opportunities and Accelerate the Business Development of the Bank in the Greater Bay Area

The Bank looks to continue to seize upon the opportunities afforded by the stable implementation of policies in relation to the development of the Greater Bay Area. The Bank intends to continue to focus on cross-border finance and make good use of resources made available by its sole shareholder, the Yue Xiu Group, to launch a number of distinctive cross-border products and services. The Bank also dedicates itself to serving enterprises and residents in the Greater Bay Area and intends to strengthen its financial connectivity, endeavouring to be among the region's leading financial institutions through its competitiveness and outstanding business features.

PRC business is an important strategic segment of the Bank. The Bank expects that its financial platform, coupled with enhanced branding as a result of the Yue Xiu Group's ownership as well as the Bank's steady progress achieved in establishing outlets in core cities in the PRC, will create increased opportunities for the Bank to further expand its presence in strategic locations in the PRC, grasp business opportunities and accelerate the business development of the Bank in the Greater Bay Area by capitalising on the Yue Xiu Group's capabilities in the PRC. The Bank is committed to becoming an integrated commercial bank based in Hong Kong, covering the Greater Bay Area and facing the whole country.

Position the Bank as a Customer-Centric Bank and a Bank of Choice to the Bank's Target Customer Segments

The Bank operates a network of 33 branches in Hong Kong as well as 1 branch in Macau, 17 branches and sub-branches in Mainland China, including Guangzhou Branch, Beijing Branch, Shenzhen Branch, Shanghai Branch and Shantou Branch, and Guangzhou Haizhu Sub-Branch, Guangzhou Panyu Sub-Branch, Guangzhou Development Zone Sub-Branch, Foshan Sub-Branch, Shunde Sub-Branch, Nansha Sub-Branch, Guangdong-Macao In-depth Cooperation Zone in Hengqin Sub-Branch, Dongguan Sub-Branch, Zhongshan Sub-Branch, Shenzhen Nanshan Sub-Branch, Shenzhen Qianhai Sub-Branch and Shanghai Hongqiao Sub-Branch. The Bank plans to widen its customer coverage by increasing the number of sub-branches and branches in the PRC, subject to regulatory approval. The Bank aims to establish these sub-branches and branches in strategic locations across the Guangdong province and major cities in the PRC where the Bank currently does not have presence so as to tap into new customer bases. The Bank believes that it is able to operate on a cost-effective basis in such areas where the target customer base is much larger and underserved by large banks. To minimise the capital required for bank premises for these new branches, the Bank plans to establish the new branches mainly under long-term operating leases. The Bank is also continually considering other suitable key locations in Hong Kong in which to set up more ATMs in order to expand the Bank's ATM network.

The Bank has pursued a strategy to expand and develop a new one-stop banking products and services platform for target corporate customers in each of Hong Kong and the PRC. The Bank offers comprehensive banking services, including cross-border financing, capital expenditure financing, financial market and wealth management for Hong Kong large corporates, mid-caps and SMEs. The Bank continues to be a strong supporter of the SMEs and actively participated in HKMC Insurance Limited's "SME Financing Guarantee Scheme" and the "Special 100% Loan Guarantee" under this scheme. The Bank will continue to pursue its support for SMEs as a target customer segment alongside larger corporates in Hong Kong and the PRC. The Bank is devoted to supporting quality PRC enterprises to expand their businesses in Hong Kong, and supporting Hong Kong customers' business both in Hong Kong and their expansion into the PRC.

As part of this, the Bank signed a strategic collaboration tripartite agreement with Guangdong Huaxing Bank and Macau Chinese Bank in relation to the provision of services for building the real economy of the Greater Bay Area based on the principles of equality, integrity and mutual benefit (the "**Tripartite Agreement**") on 20 June 2018. The Tripartite Agreement, which signifies the first ever strategic collaboration between three PRC-incorporated banks in the Guangdong province, Hong Kong and Macau since the Greater Bay Area concept was elevated to a national development strategy, is intended to play a key role in the building of the Greater Bay Area through financial collaboration and will strengthen the development of cross-border business, interbank business, investment banking and commercial banking, all of which should assist the Bank in supporting its target customer segments. In addition, the Bank expects to be able to leverage the resources possessed by the Yue Xiu Group to build on the opportunities in the Greater Bay Area.

To Accelerate the Transformation of the Retail Network and Wealth Management Capabilities of the Bank

The Bank derives a large proportion of its funding from customer deposits. Besides utilising its branch network to further expand its customer base, the Bank intends to grow its deposit base through the following initiatives with a focus on accelerating the transformation of its retail network and wealth management capabilities:

- use promotional and marketing initiatives to attract new deposit customers;
- offer attractive deposit rates to core and loyal customers with multiple relationships;
- cross-sell wealth management products to existing customers;

- promote foreign currency deposits and exchange capability;
- provide value-added services to retain existing customers and to cultivate customer loyalty;
- promote a service culture and focus on customer service;
- enhance internet banking and mobile banking services; assist and encourage customers to migrate transactions away from the counters;
- initiate network optimisation plan for setting up wealth management centres and cross-border wealth management centres at branches; and
- continue to enrich and optimise the service packages and offers of "Exceed Banking".

Partly as a result of the Bank's increased promotional activities and marketing campaigns conducted in relation to its new deposit products, the Bank has recorded increased growth in its customer deposits. As at 31 December 2024, the Bank's deposits from customers amounted to HK$247,144.1 million (U.S.$31,815.3 million), which represented a 3.3% increase from HK$239,281.4 million (U.S.$30,803.1 million) as at 31 December 2023. As at 31 December 2024, by region, 67.75% of the deposits from customers was derived from Hong Kong and 32.25% was derived from the PRC. The Bank believes that its expanded and upgraded coverage network, coupled with a wider range of deposit and wealth management product offerings, will enable it to maintain its existing business as well as increase its customer base by attracting new customers. In 2014, the Bank also obtained a qualification under the RMB Qualified Foreign Institutional Investors ("**RQFII**") programme, which has allowed the Bank to attract investors and raise funds in RMB offshore in order to invest in the PRC's domestic securities market. The Tripartite Agreement, which is intended to assist the Bank in orderly expanding its branch network, and continuing to promote digital banking, direct banking and virtual banking, should further improve the Bank's offerings in this area.

Guided by the corporate version of becoming "an integrated commercial bank with cross-border expertise", the Bank views cross-border finance as its key development strategy. By strengthening regional linkages and establishing the business network across core cities in the Greater Bay Area, the Bank continues to create distinctive, differentiated and comprehensive cross-border financial services, fully preparing for the "Cross-boundary Wealth Management Connect" Scheme to capitalise on the massive opportunities brought by this new initiative. The Bank expects that its participation in the "Cross-boundary Wealth Management Connect" Scheme will capture the opportunities for serving the wealth management needs of cross-border customers and for other cross-border businesses and help to maintain the Bank's core competitiveness as an asset management hub in the Greater Bay Area.

Expand and Grow Selected Customer Segments and Diversify Income Streams to Achieve Steady Growth of Revenues

To compensate for the effects of ongoing competition and margin compression, the Bank intends to focus on diversifying its sources of income. The Bank is in the process of:

- developing new banking products;
- increasing cross-selling opportunities, in particular, for mortgage, retail brokerage and insurance services;
- increasing efforts to derive higher profit margins from its investment activities;
- growing foreign exchange income through the foreign currency deposit and exchange capability; and
- expanding wealth management product range by launching new insurance and investment products.

The Bank has continued to enhance its sales capability through on-going training and the development of cross-selling programmes targeted at the existing customer base. Furthermore, the Bank has continuously enhanced its internet banking platform to encourage the migration of banking and securities transactions to the internet. The Bank will strengthen cooperation with the facilitators of e-commerce payment. It will provide them with online and offline payment processing services in order to achieve a diversified business and drive revenue growth. The Bank will also implement customer structure optimisation to focus on attracting and nurturing young customer groups by developing and optimising online and mobile banking functions. The Bank believes that these initiatives, together with the expansion of its branch network, will help to achieve steady growth of revenues, diversify its income portfolio, enlarge its income base and reduce the Bank's reliance on any one source of income.

Focus on Customers' Needs and Provide Customised and Comprehensive Proposals

The Bank aims to maintain steady growth in its corporate loan and retail loan portfolio. In addition to diversifying its overall income sources, the Bank believes that the development of additional loan products and services to provide customised and comprehensive proposals and the expansion of its overall loan portfolio will enable it to focus on customers' needs and capitalise on growing opportunities in Hong Kong and the PRC. As at 31 December 2024, Hong Kong corporate loans (including trade finance loans) represented 36.6% of the Bank's total loan portfolio, local retail loans represented 9.9% and loans advanced for uses outside of Hong Kong represented 53.5%, as compared to 32.6%, 8.0% and 59.4%, respectively, as at 31 December 2023 and 30.8%, 7.8%, and 61.4%, respectively, as at 31 December 2022.

Corporate loan portfolio

Corporate lending represents a major portion of the Bank's credit activities and the Bank intends to continue to strengthen its corporate credit portfolio and improve its risk-adjusted return by actively managing the industry sector, geographical, customer and product composition of its corporate credit portfolio. The intended growth and expansion in the Bank's corporate loan portfolio will be focused on certain key areas including:

- lending to mid-sized corporates and companies listed in Hong Kong;
- lending to PRC-related corporates in Hong Kong;
- cross-border trade finance;
- trade finance and services to import and export companies;
- supporting SMEs, major industries in Hong Kong and PRC companies engaged in business in Hong Kong;
- lending to property investors and developers;
- share financing to medium- to large-sized customers;
- placing more focus on cash flow lending in addition to secured lending for increased flexibility and to better cater to the changing needs of customers;
- participating in syndicated loans; and
- granting credit facilities to large corporations with business activities in Hong Kong and Asia (particularly in the PRC).

The Bank plans to, and is in the process of, (i) strengthening its marketing efforts to solicit business from large to mid-sized corporations, (ii) increasing flexibility in its facility structuring and service offerings, (iii) synchronising the Bank's internal risk assessment and credit policy with the Bank's target market positioning, (iv) enhancing tailor-made services and products to corporate customers, and (v) reducing credit turnaround time to enhance speed and time to bring products to the market. The Tripartite Agreement is expected to assist its efforts in achieving these targets.

Retail loan portfolio

The Bank intends to leverage on its existing network of middle and lower income retail deposit customers to grow its retail credit portfolio in a prudent manner.

The Bank plans to grow its residential mortgage loans business by increasing cross-selling of mortgage services as well as other retail banking products, offering competitive pricing and terms and conditions for its mortgages, soliciting co-operation with developers or property agencies to capitalise on business opportunities and shortening loan approval turnaround time. The Bank also actively promotes the PRC property mortgage service, providing a one-stop mortgage solution for Hong Kong permanent residents who own properties in the Greater Bay Area. As at 31 December 2024, residential mortgages comprised approximately 6.7% of the Bank's total loan portfolio (compared to 4.9% as at 31 December 2023), which the Bank estimates to be low compared to the proportion of most other locally incorporated banks and, accordingly, the Bank is of the view that there is still potential for growth in this business segment.

In late 2020, a new product Asset Secured Facility was launched, allowing wealth customers to pledge their mutual funds in their investment account for credit facility to meet their financial needs. The Bank is also in the process of strengthening secured loan products such as insurance policy financing to diversify the loan portfolio. In addition, the Bank intends to offer more share financing business to its retail customers.

To Pursue a Capital-Light Strategy and Increase Non-Interest Income by Enhancing the Bank's Existing Services

In addition to fees arising from credit businesses, the Bank aims to continue to pursue a capital-light strategy and increase non-interest income through existing services. The Bank's wholly-owned subsidiary, Chong Hing Securities Limited, has a proven securities dealing platform which allows customers to place orders through telephone, dealing centres, internet and mobile electronic devices. The Bank plans to continue to use this platform to build its customer base and commission income. Chong Hing Securities Limited was one of the first local securities brokers to participate in the "Shenzhen-Hong Kong Stock Connect" when it launched in December 2016, following on from its participation in the "Shanghai-Hong Kong Stock Connect" since November 2014. The Bank believes that Chong Hing Securities Limited is well-positioned to secure its position as an offshore financial centre by leveraging on its securities services. The Bank has planned various initiatives including establishing preferential commission rate promotions, offering a preferential interest rate to new margin securities accounts and executing a reach-out programme to inactive account holders.

The Bank has actively developed its foreign exchange income and insurance fee income through the growth of foreign currency deposits, insurance sales and safe deposit boxes. The Bank reviews its fees and charges on an annual basis and is actively looking for new sources of fee income. In addition, and to strengthen its position in the syndicated loans market, the Bank established a dedicated department to provide syndicated loans services for core customers in January 2016. During the financial year ended 31 December 2024, the Bank completed the transaction of 9 syndicated loans and 15 club loans, in six of which the Bank acted as mandated lead arranger and bookrunner. The increased loan demand and the closing of the various syndicated and bilateral loans in the financial year ended 31 December 2024 not only generated stable interest income for the Bank, but also led to an increase in loan arrangement fees over the year.

Accelerate the Digital Transformation

Fintech has become the key for the banking industry to seize new opportunities. In April and October 2021, the Bank's new core banking system has been successfully launched in Hong Kong and Macau respectively, helping the Bank to respond quickly to the ever-changing market trends and customer needs, and enabling the Bank to apply innovative business concepts to products and services. The integration of online and offline financial services injected strong momentum into the digital development of the Bank. The launch of the new core banking system signifies the establishment of a core operational foundation to enable to Bank to push ahead with its digital transformation. With the support of the new core banking system, the Bank continues to invest more resources in its digital transformation to create business value by empowering different operational areas with the latest technology.

The Bank has launched the "Financial Technology Training Series" and actively supported the Fintech Career Accelerator Scheme launched by the Hong Kong government and regulatory bodies. In 2021, Live Chat and Open API were launched enriching the services in the digitalisation journey of the Bank. The Bank is also planning to develop remote account opening and digitalise banking products including consumer loans and insurance. Other than products and services, the Bank's digital transformation also includes operations and risk management aspects in order to enhance accuracy and efficiency. By formulating the relevant information and financial technology strategies, the Bank will accelerate its digital transformation projects in the next three years, and increase financial technology-related talents and investment. The Bank's digitalisation strategy committee (formerly known as the Information Technology Strategy Committee) will oversee and review the Bank's strategic plans for information and fintech for the next three years.

BUSINESS OVERVIEW

The principal business segments of the Bank are corporate banking and personal banking. Other business activities include financial markets activities, securities businesses, investment holding, insurance, other investment advisory services and property investments. The following table sets forth the contribution of each segment to the Bank's total operating income for the periods indicated.

	For the year ended 31 December					
	2022		2023		2024	
	(HK$'000)	*(percentage)*	*(HK$'000)*	*(percentage)*	*(HK$'000)*	*(percentage)*
Corporate and personal banking	4,399,340	86.2%	4,672,031	77.8%	4,286,904	70.6%
Financial markets activities	276,571	5.4%	31,126	0.5%	400,674	6.6%
Securities businesses	117,460	2.3%	106,691	1.8%	119,060	2.0%
Others	310,300	6.1%	1,193,028	19.9%	1,267,324	20.9%
Total operating income	**5,103,671**	**100.0%**	**6,002,876**	**100.0%**	**6,073,962**	**100.0%**

Corporate and Personal Banking

The corporate and personal banking services provided by the Bank are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Bank also provides fully automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Being an integrated commercial bank offering cross-border expertise, and leveraging on its competitive edge in network interaction between Hong Kong and the PRC, the Bank provides a variety of cross-border financial products and services to accommodate customers' funding requirements in the Greater Bay Area. It also effectively manages their interest rate and exchange risks through its treasury product portfolio.

The majority of the Bank's borrowers are Hong Kong companies. The Bank's lending activities in the PRC are conducted mainly with its existing customers based in Hong Kong or referrals arising from its existing relationships with customers engaged in business in the PRC or from the Yue Xiu Group. The Bank is also expanding its PRC branch network to acquire local corporate customers through locally hired relationship managers and their networks.

Commercial advances

As at 31 December 2024, the amount of outstanding corporate advances (including trade finance loans) amounted to HK$58,979.2 million (U.S.$7,592.5 million), which represented 36.6% of the Bank's total outstanding loans and advances, as compared to HK$52,944.4 million (U.S.$6,815.6 million) representing 32.6% as at 31 December 2023 and HK$51,370.5 million (U.S.$6,613.0 million) representing 30.8% as at 31 December 2022. As at 31 December 2024, of the outstanding corporate advances (including trade finance loans) for use in Hong Kong, 16.6% was extended for use in property development or investment and 31.3% was extended for use by financial concerns and stockbrokers, as compared to 18.2% and 27.9%, respectively, as at 31 December 2023.

Substantially all of the Bank's corporate advances are extended on a recourse basis and/or are secured by underlying projects. In the case of property financing, all advances are secured by a first registered charge over the underlying property and in most cases, together with a charge over all the sale and rental proceeds derived from the property. In some circumstances, the Bank may require additional collateral such as time deposits, listed securities and other financial instruments that the Bank deems acceptable. All facilities will be reviewed at least on an annual basis. The Bank's corporate advances range from relatively small amounts to several hundred million Hong Kong dollars. Loan-to-value ratios for project financing are determined on a case-by-case basis.

Trade finance

The trade finance business of the Bank comprises mainly advances and credits to commercial, corporate and institutional customers, which include commercial and standby letters of credit, account receivable and payable financing (e.g. packing credits, import loan, trust receipt, export bill negotiation, export invoice discounting, factoring, etc.), risk participation and forfaiting for the purpose of accommodating customers' working capital requirements. The Bank also provides other trade finance related services to its customers, including advising on and transfer of export documentary credits, shipping guarantees and collection of import and export bills. A big proportion of trade finance advances and credits are secured by a mortgage of property, cash collateral or payment undertaking from sound financial institutions, although some other advances may be made on a partially secured or on an unsecured basis. Trade finance advances typically have a relatively shorter maturity and most of the Bank's trade finance advances generally have a maturity period of less than a year. As at 31 December 2024, the Bank's total outstanding trade finance advances amounted to HK$2,505.5 million (U.S.$322.5 million), which represents a 42.7% increment of the Bank's total outstanding trade finance loans and advances, as compared to HK$1,755.9 million (U.S.$226.0 million) as at 31 December 2023.

The Bank's trade finance customers comprise mainly manufacturing companies, SMEs, large trading firms, Mainland SOE corporations and sound or listed financial institutions. The Bank will continue to increase income contribution from trade finance business by providing its customers with customised trade service through its experienced trade finance staff team. Since trade finance sector in Hong Kong is well developed, the Bank is also now seeking to capitalise on its overall reputation and the expanding network in China Mainland branches to enhance the Bank's trade finance services to its increasing number of corporate and institution customers.

Syndicated lending

The Bank is also engaged in the Hong Kong syndicated lending market. To strengthen its position in the syndicated loans market, the Bank established a dedicated department to provide syndicated loans services for core customers in January 2016. During the financial year ended 31 December 2024, the

Bank completed the transaction of 9 syndicated loans and 15 club loans, in six of which the Bank acted as mandated lead arranger and bookrunner. To further strengthen the platform for all-round development of the syndication loan business, the Bank has set up a syndication agency team in 2020. The Bank's Guangzhou branch constantly accelerated its scale of underwriting local government bonds and assisted the Macau branch in underwriting bonds issued by the Guangdong provincial government overseas. Meanwhile, the Bank proactively enhanced the quality of the loan asset portfolio and improved relevant returns via the secondary market transactions.

The majority of the Bank's syndicated advances are extended to large local conglomerates and large PRC private or state-owned enterprises. The syndicated corporate lending market has remained active as large PRC corporations continued to tap into the local syndicated lending market to finance their overseas acquisitions. Despite this increase in activity, interest margins on syndicated loan transactions continued to decline as the credit market stabilised as well as due to competition in the market.

Retail banking

Retail banking comprises personal banking (including deposits, residential mortgage financing and other consumer financing) and wealth management services (including insurance and investment) to individual customers and small companies. The Bank also offers financial services such as remittance and money exchange services, safe deposit boxes, autopay and direct debit services on a retail level and provides phone banking and internet banking services to its customers. The Bank accelerated the pace of its digital transformation and actively developed online business in order to provide customers with quality banking services continuously to meet their financial needs. At the same time, the Bank reinforced its relationship with customer experience and satisfaction, thereby creating additional value and momentum for its personal banking business.

For the year ended 31 December 2024, the personal banking business continued to record steady growth, with total saving and current deposits of personal banking growing by 6.1% as compared with the year ended 31 December 2023. For the year ended 31 December 2023, total saving and current deposits of personal banking shrank by 18.6% as compared with the year ended 31 December 2022.

Residential mortgages

Residential mortgages represent the largest segment of the Bank's total advances to retail customers, accounting for 67.0% of the Bank's total retail loan portfolio and 6.7% of the Bank's total loan portfolio as at 31 December 2024, and includes advances guaranteed by the Hong Kong government under Government Home Ownership Scheme ("**GHOS**"), Private Sector Participation Scheme ("**PSPS**") and Tenants Purchase Scheme ("**TPS**") to assist lower income families in purchasing homes. Advances under GHOS, PSPS and TPS accounted for an aggregate of HK$252.9 million (U.S.$32.6 million), which represented 0.2% of the Bank's total loan portfolio as at 31 December 2024. The Bank has also launched new cross-border property mortgage services to provide one-stop mortgage solutions for Hong Kong permanent residents buying properties in PRC cities in the Greater Bay Area. The Bank has established a strong retail and corporate customer base that provides an on-going source of mortgage business. Property developers, solicitors and real estate agencies are also sources of referrals. The majority of the residential mortgages are owner-occupied properties. The Bank has also taken on investment properties, both residential and commercial, largely from existing customers with significant net worth.

Residential mortgage loans are secured by a first legal charge over the property and, in certain circumstances, the Bank may also require personal guarantees as additional security. Residential mortgages typically include floating interest rates and are repayable by instalments. The maximum contractual tenor of mortgage loans is 30 years. Competitive pricing and buoyancy of the property markets are common causes of refinancing and early redemptions. The Bank offers mortgage loan advances within the loan-to-value ratio limits as specified by the Monetary Authority from time to time. Amounts in excess of these limits are covered by insurance providers through approved Mortgage Insurance Schemes.

Consumer financing

Consumer advances are generally higher yielding loans and include overdrafts, secured and unsecured advances to individuals for a variety of purposes such as tax payments, general investment purposes, travel, hospitalisation, education and home improvement.

Applications for consumer advances are processed by qualified underwriters based on established guidelines approved by the Head of Credit Risk Management Division and are subject to regular credit reviews.

As at 31 December 2024, the Bank's total outstanding consumer advances (including credit card advances) amounted to HK$5,292.7 million (U.S.$681.3 million), which represented 33.0% of the Bank's portfolio of loans to individuals and 3.3% of the Bank's total loan portfolio, as compared to HK$4,989.6 million (U.S.$642.3 million), 38.5% and 3.1%, respectively, as at 31 December 2023 and HK$5,117.1 million (U.S.$658.7 million), 39.6% and 3.1%, respectively, as at 31 December 2022.

The Bank has gradually built up its consumer finance portfolio through gradual growth of its personal loan and tax loan business. The Bank has a prudent credit policy and delinquency and write-offs are below market averages. The Bank has, over the past years, launched frequent campaigns with attractive pricing, simplified procedures and fast approval turnaround in capturing a growing number of new customers. The Bank will continue to focus on its overdraft business through existing customers.

Wealth management business

The Bank has continued to develop its account service with one-stop investment and asset filling services. The Bank strived to provide comprehensive wealth management and one-stop personal banking services to customers in Hong Kong and other cities in the Greater Bay Area through adopting a customer-oriented model. Through the development of the wealth management business, coupled with the promotion of wealth management, an improvement in processes and diversified investment products, as well as an enhanced wealth management platform, the Bank is wholly committed to meeting customers' all-round needs. Despite the volatility in the investment market, total income from the investment business for the year ended 31 December 2024 has reached high growth including a year-on-year increase of approximately 43%. In April 2021, a new segment brand, "Exceed Banking", was launched to offer a more comprehensive wealth management package to customers with total assets of HK$1 million or above, and help customers to grow their wealth through promotions and professional wealth planning services. The Bank will continue to enrich and optimise the service packages and offers of "Exceed Banking" to enhance the experience of high-end customers while preparing to capture the opportunities for serving the wealth management needs of cross-border customers and for other cross-border businesses. The Bank also plans to offer more investment products that cater to market demand and to explore other distribution channels to support the growth of its wealth management business. In addition, the Bank specifically created a new brand Go Banking to attract affluent young customers. Go Banking focuses on digital self-service wealth management, allowing young customers to enjoy more exclusive benefits through a series of digital wealth management services.

The Bank has comprehensively expanded its cross-border wealth management business. The Bank has been eligible to offer services under the "Cross-boundary Wealth Management Connect" Scheme since 27 January 2022. Following the launch of Cross-boundary Wealth Management Connect 2.0 in the first quarter of 2024, the Bank also met the needs of cross-border customers by collaborating with Mainland partner banks to introduce a proxy-witness account opening service for Southbound Scheme investment accounts.

Through the strategy of actively expanding its high-value customer base, the number of wealth customers of the Bank increased by 12% for the year ended 31 December 2024 as compared to the same period in 2023. The total value of RMB deposits and investment assets (Unit Trust) recorded annual growth of approximately 1.5% and 2.8%, respectively, for the year ended 31 December 2024, further strengthening the foundation of the Bank's wealth management business.

Credit card service

The Bank became a principal member of Visa in 1998 and a principal member of MasterCard International in 2000. Apart from issuing a variety of regular, gold and platinum credit cards as its core products, the Bank also offers co-brand cards and corporate cards to business partners and affinity cards with various professional, educational and commercial institutions and associations in Hong Kong.

The Bank has taken active steps to add value to its credit cards. In 2012, the Bank launched the "Dual Card Program" for UnionPay Dual Currency Credit Card and other Chong Hing credit cards. In the face of tightening margins and saturation of the market, the Bank has worked with business partners such as MSN in offering co-branded cards with exclusive benefits and privileges. These business partnerships enable the Bank to target certain customer segments more effectively. The Bank continues to offer welcome gifts to new credit card customers, as well as to provide discounts and privileges with participating shopping, dining and entertainment merchants.

Credit cards rely heavily on interest income from the rollover customer segment which has diminished gradually over the past years. The thinning of margins has prompted card issuers, including the Bank, to take on a slower pace in card growth. The Bank has engaged in cross-selling activities at its existing branch network to offer new cards to existing customers.

The Bank's credit card retail sales transactions for the year ended 31 December 2024 increased by 5% compared to the year ended 31 December 2023. The average transaction value of credit card retail sales per valid cardholder recorded 14% growth for the year ended 31 December 2024. For the Bank acquiring businesses, the Bank supported various kinds of payment methods through a single terminal, including Visa, MasterCard, UnionPay, WeChat Pay, AliPay, BOCPay, UnionPay App, ApplePay, GooglePay and HuaweiPay. This is convenient for merchants and provides both merchants and consumers with a variety of payment options and experiences in addition to cash payment. The total acquiring sales volume decreased by 8% for the year ended 31 December 2024 when compared to 2023 due to the economic downturn and the business strategy of the Bank to focus on quality merchants. In proactive response to the online shopping trend, which is the new consumption pattern in the post-pandemic era, the Bank will strengthen capabilities of its e-acquiring platform in order to provide both merchants and customers with enhanced online and regular offline payment processing services in order to achieve a diversified business and drive revenue growth.

The Bank's credit card services fee and commission income saw a decline between the years ended 31 December 2023 and 2024, with fee and commission income from credit card services being HK$96.9 million (U.S.$12.5 million) for the year ended 31 December 2024, as compared to HK$102.4 million (U.S.$13.2 million) for the year ended 31 December 2023.

Internet banking services

As part of its general banking business, the Bank offers fully automated digital banking services to its customers. The Bank's digital banking services comprise a wide variety of banking functions, including balance enquiries, rate enquiries, funds transfers, time deposit, bill payment, credit card transactions and contributions. In 2021, Live Chat and Open API were launched enriching the services in the digitalisation journey of the Bank. In 2022, the Bank continues to enhance its digital banking products and services, introducing a number of measures to facilitate online bank account opening, new corporate internet banking, as well as promotional offers to attract customers.

The Bank also offers internet-based brokerage services (including real-time internet stock price quote service) through its wholly-owned subsidiary, Chong Hing Securities Limited, which allows customers to trade securities on the internet. Chong Hing Securities Limited was admitted as part of the first batch of brokers adopting the Broker Supplied System under the AMS/3 system, which allowed its dealing operations to run under a fully automated straight-through processing environment. Over the past few years, Chong Hing Securities Limited has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform and the Bank believes that these schemes have been well-received by its customers. One of these incentive schemes was the launch of a new service for customers to apply for Chong Hing Securities Limited account opening via Chong Hing Mobile Banking App to address the inconvenience due to restrictions imposed during the COVID-19 pandemic as well as various promotional strategies. These measures helped in driving new customers and brought growth to the business of Chong Hing Securities Limited.

As at 31 December 2024, more than 44.6% of Chong Hing Securities Limited's trading customers had registered internet-based securities client accounts with its internet-based brokerage service, and the volume of transactions executed via the internet-based brokerage system accounted for approximately 53.6% of the total number of trades and approximately 35.5% of Chong Hing Securities Limited's total turnover. For the year ended 31 December 2024, the total trading volume of Chong Hing Securities Limited increased by 29.7% while the volume of trading via online systems and commission income therefrom recorded a 14.7% growth, with the number of successful orders via electronic channels representing approximately 53.6% of the total successful orders. Approximately 1.5% of new customers converted to digital banking in 2024, with online financial transactions increasing by 19.8% by turnover. During 2024, the Bank launched a new generation of personal digital banking platform, bringing customers a brand-new online experience, including investment product trading and information interfaces, online deposit tools, remote account opening services, etc. The number of accounts opened through remote account opening services has increased significantly, with new customers accounting for 70%. With the introduction of online systems for Wealth Accumulation Plan (Monthly Stock Savings), the younger generation is expected to be attracted to use this service, thus bringing new opportunities for Chong Hing Securities Limited.

For the year ended 31 December 2024, the total operating income (net of interest expense and fee and commission expense) from the corporate and personal banking business was HK$4,286.9 million (U.S.$551.9 million), as compared with HK$4,672.0 million (U.S.$601.4 million) for the year ended 31 December 2023 and HK$4,399.3 million (U.S.$566.3 million) for the year ended 31 December 2022.

Treasury and markets business

The Bank's treasury activities primarily consist of money market transactions, investment portfolio management and other interbank and capital market activities conducted on behalf of the Bank. Treasury operations are also responsible for managing the funding and liquidity positions of the Bank and other market risk positions arising from banking activities. The Bank generally maintains an insignificant open foreign exchange position.

Income derived from foreign exchange activities is generated mainly from services provided to customers in the form of foreign exchange dealing and forward contracts. The Bank's foreign exchange dealing activities are typically engaged on behalf of its customers as part of the Bank's overall banking business. Off-balance sheet derivatives are used only for hedging customers and the Bank's positions. As part of its strategic planning, the Bank has progressively strengthened its team by hiring highly experienced financial experts, enriching its financial products, and offering pertinent advice and services that cater to the needs of different customer segments, thereby increasing its market competitiveness and fee income.

Since 2018, the Bank has focused on its treasury business by optimising its balance sheet and using various financial instruments while complying with the established risk appetite, risk limits and liquidity requirements. During the year of 2024, the Bank was committed to developing its treasury and markets business, registering significant growth in areas such as treasury activities and customer cross-selling business. The Bank has continued to leverage its dynamic investment strategies and capture potential treasury business opportunities to diversify revenue sources. With its treasury business, the Bank aims at optimising the balance sheet by effectively applying a wide variety of financial instruments while complying with established risk limits and maintaining a prudent liquidity level.

For the year ended 31 December 2024, the total operating income (net of interest expense and fee and commission expense) from the financial markets activities business was HK$400.7 million (U.S.$51.6 million), as compared with HK$31.1 million (U.S.$4.0 million) for the year ended 31 December 2023 and HK$276.6 million (U.S.$35.6 million) for the year ended 31 December 2022.

Securities Business

Securities business of the Bank includes securities trading, stockbroking and futures broking.

Stock broking activities and dealings in Hang Seng Index futures, options and other derivative products are conducted through the Bank's wholly-owned subsidiaries, Chong Hing Securities Limited and Chong Hing Commodities and Futures Limited, on an agency basis. This has grown to provide a stable source of additional income for the Bank even during the last few years where there has been volatility in the Hong Kong stock market.

Chong Hing Securities Limited was admitted as the first batch of brokers adopting the AMS/3 (OG/BSS) system of the HKSE and provides a range of securities related services through the Bank's branches as well as its own branches and dealing platform.

As part of business development, Chong Hing Securities Limited continued to expand its electronic securities trading services. In January 2010, "Chong Hing Mobile Securities Service" was launched, enabling customers to conveniently conduct stock transactions online anywhere using their smartphones or personal digital assistant devices. The platform enables customers to deal with their securities investments anytime, anywhere. For the year ended 31 December 2024, the percentage of securities trading via electronic means by customers increased by 19.8% as compared to the year ended 31 December 2023. Chong Hing Securities Limited is one of the broker participants in the "Shanghai-Hong Kong Stock Connect" and the "Shenzhen-Hong Kong Stock Connect". The "Shanghai-Hong Kong Stock Connect" and the "Shenzhen-Hong Kong Stock Connect" are mutual market access programmes that allow investors in Hong Kong and the PRC to trade and settle shares listed on the other market via the exchange and clearing houses in their local market.

For the year ended 31 December 2024, the total operating income (net of interest expense and fee and commission expense) from the securities business was HK$119.1 million (U.S.$15.3 million), as compared with HK$106.7 million (U.S.$13.7 million) for the year ended 31 December 2023 and HK$117.5 million (U.S.$15.1 million) for the year ended 31 December 2022.

Others

Other businesses of the Bank comprise investment holding, insurance, other investment advisory services and property investments.

Insurance business

The Bank conducts its main insurance business through its wholly-owned subsidiary, Chong Hing Insurance Company Limited, which was acquired in June 2005 to serve as a division for the Bank's insurance business. Chong Hing Insurance Company Limited provides a diversified range of insurance services, including fire insurance, marine insurance, motor vehicle insurance, employee's compensation insurance, public liability insurance and property insurance. Insurance products offered by Chong Hing Insurance Company Limited are distributed through the Bank's branch network, insurance agents, brokers, allied partners and internet websites of both the Bank and Chong Hing Insurance Company Limited.

Chong Hing Insurance Company Limited expects to continue to use the bancassurance model to develop new business to realise the Bank's potential on the back of its strong business network. It will also explore new business opportunities to enhance its performance. Under the sound operation of Chong

Hing Insurance Company Limited, the overall underwriting profit and profit before tax of the direct business remained stable due to the reduction in claims for accident and health business and employees' compensation business.

Chong Hing Insurance Brokers Limited was officially opened in July 2020 to engage in the Hong Kong regulated insurance brokerage business. As the agent for the "Proposed Policy Owner" scheme, Chong Hing Insurance Brokers Limited seeks suitable insurance solutions from different insurance companies to suit customers' insurance and financial needs. Benefiting from favorable policies for the Greater Bay Area, Chong Hing Insurance Broker Limited successfully facilitated mid-to-high-end individual and corporate customers in designing customised insurance solutions for the year of 2024. These solutions not only met the financial and family guarantee needs of customers but also earned recognition from customers for the professionalism and meticulousness of its services. Aiming to promote the diversified development of corporate insurance services, Chong Hing Insurance Broker Limited intends to actively enhance its service innovation capabilities and continue to provide customers with one-stop wealth planning and risk management solutions.

The Bank focused on promoting its premium and insurance policies financing business and providing a wide range of secured loan products for customers in order to boost the wealth management products financing business, increase comprehensive income and optimise the Bank's loan portfolio. The Bank also continued to optimise its agency insurance products to meet customers' needs.

MPF services and other asset management and trustee services

The Bank offers a comprehensive range of MPF services, including trustee, scheme administration, investment management and custody services to employers, employees and the self-employed through its 13.3% owned associate, Bank Consortium. Bank Consortium is currently collectively owned by the Bank, Asia Financial Holdings, Dah Sing Bank, Shanghai Commercial Bank, OCBC Bank, CMB Wing Lung Bank, Fubon Bank, and Industrial and Commercial Bank of China (Asia). Bank Consortium also offers a full range of pension products which include the BCT (MPF) Pro Choice (a master trust scheme), BCT (MPF) Industry Choice (an industry scheme), the BCT Premier Pooled Occupational Retirement Schemes Ordinance ("**ORSO**") Retirement Plan (an ORSO scheme) for the Employer Sponsored Scheme and scheme administration for other registered MPF schemes. Customers can choose from the Bank Consortium Trust MPF plans a wide range of funds to meet their individual investment and retirement needs.

PRC AND MACAU OPERATIONS

The Bank currently has branches in Guangzhou, Beijing, Shenzhen, Shanghai, Shantou and Macau, with sub-branches in Guangzhou Haizhu District, Guangzhou Panyu District, Guangzhou Development Zone District, Guangdong Zhongshan District, Foshan Nanhai District, Foshan Shunde District, Nansha Area of Guangdong Pilot Free Trade Zone, Hengqin Area of Guangdong Pilot Free Trade Zone, Dongguan Nancheng District, Shenzhen Nanshan District, Shenzhen Qianhai District and Shanghai Hongqiao District. By establishing more physical outlets, the Bank is able to increase its brand recognition, enhance its market influence, and promote the Bank's corporate image in the PRC. In 2024, the Bank's PRC branches and sub-branches actively responded to the complex and volatile external environment, maintaining steady but progressive development.

The Bank's PRC and Macau operations were commenced to meet the requirements of its existing core customers as their interests expand outside of Hong Kong. The table below sets forth the Bank's branches and sub-branches outside of Hong Kong as at 20 May 2025.

Operations	Country	Year of Establishment
Branch in Beijing	PRC	2022
Branch in Shanghai	PRC	1988 (1)
Branch in Shantou	PRC	1993
Branch in Macau	PRC	1997
Branch in Guangzhou	PRC	1999 (2)
Branch in Shenzhen	PRC	2016
Sub-branch in Guangzhou Haizhu	PRC	2014 (3)
Sub-branch in Guangzhou Development Zone	PRC	2025
Sub-branch in Guangzhou Panyu	PRC	2023
Sub-branch in Guangdong Zhongshan	PRC	2022
Sub-branch in Guangzhou Nansha (Guangdong Pilot Free Trade Zone)	PRC	2015
Sub-branch in Foshan	PRC	2015
Sub-branch in Zhuhai Hengqin (Guangdong-Macao In-Depth Cooperation Zone)	PRC	2016
Sub-branch in Foshan Shunde	PRC	2019
Sub-branch in Dongguan	PRC	2020
Sub-branch in Shenzhen Nanshan	PRC	2021
Sub-branch in Shenzhen Qianhai	PRC	2023
Sub-branch in Shanghai Hongqiao	PRC	2023

Notes:

(1) The Bank established a representative office in Shanghai in 1988 and converted this into a branch in 2019.

(2) The Bank established a representative office in Guangzhou in 1999 and converted this to a branch in 2016.

(3) The Bank opened a sub-branch in Tianhe, Guangzhou in October 2014 which was relocated in 2021.

The Bank's Shantou branch began its cross-border Renminbi trade settlement business with the Bank's head office on 30 June 2011. In October 2009, the Bank's Shantou branch received approval to accept fixed deposits from PRC citizens with a minimum of RMB1 million for each transaction. The Bank opened branches in Guangzhou and Shenzhen in 2016, Shanghai in 2019 and Beijing in 2022 and plans, subject to regulatory approval, to open further sub-branches across the Guangdong province and the PRC.

The Bank's PRC branches and sub-branches have in recent years continued to grow. With an increasing variety of product series, its customer base was consolidated, its internal process was optimised and its information system and risk management were enhanced and strengthened, achieving steady growth in asset scale and significant enhancement in operating efficiency.

The Bank launched the "Guangzhou and Hong Kong Pass" and the "Shenzhen-Hong Kong Stock Connect" commercial services in 2018 and in doing so, expanded its cross-border commercial service coverage to one free trade and one in-depth cooperation zone, Nansha and Hengqin. The Bank took advantage of its outlets across the Guangdong province and Hong Kong to launch its Hong Kong account opening agency service in the PRC. The Bank also optimised its corporate account-opening process and promoted its account opening appointment services, which provides convenient financial services to the Bank's corporate customers. The PRC government institution business kept up a sound momentum of development. The Bank's institutions business continues to receive support from the Guangzhou Municipal Government with fiscal deposits. In collaboration with the Guangzhou Public Resources Trading Center and the Provident Fund Center, the Bank successfully launched its land security deposit business and provident fund deposit business in 2017, providing the Bank with additional sources of deposits. The Bank's PRC branches and sub-branches have effectively reinforced their relationships with core institutional customers of the Guangdong province, and in Guangzhou, Shantou and Hengqing. By continuously improving the quality of their services and with the successful expansion of their customer base to institutional customers at the regional level, the Bank has recorded steady growth in the deposit scale of PRC institutions.

The Bank's corporate business and income have recorded steady growth. The Bank's PRC branches and sub-branches constantly broaden the sources of deposits of their corporate customers, have made unremitting efforts in customer marketing and deepened cooperation with customers, thus maintaining the steady growth of corporate deposits. By strengthening the management of exposure to credit risk and optimising its credit components, the Bank's loan business has achieved sound development. The Bank has strengthened its cooperation with investing and commercial institutions, and enhanced its customer service capability through providing comprehensive financial services solutions, thereby increasing its corporate business fee income.

The income from the financial market business continued to make a large contribution. The Bank's PRC institutions have proactively enriched their asset portfolios and broadened their income streams in the financial market business. The Guangzhou branch obtained access for the "interest rate swap business" in the national interbank market, and introduced a variety of investment products, including forfeiting in the secondary market, U.S. dollar placement and deposit transactions with non-banking institutions, and public offering funds. The Guangzhou branch has constantly accelerated its scale of underwriting local government bonds and assisted the Macau branch in underwriting bonds issued by the Guangdong provincial government overseas. In light of its commitments to the bonds underwriting business, the Guangzhou branch was awarded the honour of the "2020 Overseas Institution for Bond Underwriting Transaction" title by the Shenzhen Stock Exchange. The Shenzhen branch has also made several achievements. The Shenzhen branch achieved its first online interbank deposit transaction through the local currency trading system of the National Interbank Funding Center. The "One-stop Portal for Shenzhen-Hong Kong Commercials Services" setup in the Shenzhen branch was awarded the Third Prize in the "Financial Innovation Awards" 2020 by the Guangdong provincial government. For the year ended 31 December 2024, the cross-border settlement of PRC branches and sub-branches has increased by 41.65% as compared with 2023, reaching RMB216.76 billion; the Guangzhou branch, as the management bank in the PRC, was granted for the first time the highest rating in foreign exchanges activities by regulatory authorities, and the Shenzhen branch implemented the Bank's first cross-border RMB forfeiting asset transfer business, resulting in steady growth in cross-border business settlement and financing.

To support the national Greater Bay Area strategy, the Bank established the GBA Business Development Department (formerly known as the Guangdong-Hong Kong-Macao Bay Area Management Office) in Hong Kong in 2018. The office is responsible for the innovation of the business model and service strategy for the Greater Bay Area, as well as building a cross-border financial integration service system. The Bank also participated in the first strategic cooperation among three banks incorporated in the Guangdong province, Hong Kong and Macau, promoting the development of the Greater Bay Area with their cross-border financial products and services.

BANK STRUCTURE

As at the date of this Offering Circular, the Bank has a total of 10 principal subsidiaries and three associates namely (1) Chong Hing Insurance Company Limited, (2) Chong Hing Securities Limited and (3) Chong Hing Insurance Brokers Limited. The Bank has a number of significant subsidiaries through which the Bank conducts various operations such as stockbroking, insurance, property investment and certain fee-based activities. As at the date of this Offering Circular, except for Chong Hing Securities Limited, Chong Hing Insurance Brokers Limited and Chong Hing Insurance Company Limited, none of the Bank's subsidiaries account for more than 1% of the consolidated net profit and loss of the Bank or has a book value of more than 1% of the Bank's consolidated total assets.

The table below sets forth a summary of the Bank's principal subsidiaries as at the date of this Offering Circular

Name of subsidiary	Place of incorporation	Issued share capital	% of issued share capital held by the Bank	Principal activities and place of operation
Chong Hing (Nominees) Limited	Hong Kong	HK$100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Finance Limited	Hong Kong	HK$25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong	HK$100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Securities Limited	Hong Kong	HK$10,000,000	100%	Stockbroking in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong	HK$5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Chong Hing Insurance Brokers Limited . . .	Hong Kong	HK$4,000,000	100%	Insurance broking in Hong Kong
Chong Hing Insurance Company Limited . .	Hong Kong	HK$85,000,000	100%	Insurance underwriting in Hong Kong
Gallbraith Limited	Hong Kong	HK$16,550,000	100%	Property investment in Mainland China
Hero Marker Limited	Hong Kong	HK$100,000	100%	Property investment in Hong Kong
Top Benefit Enterprise Limited	Hong Kong	HK$4,100,000	100%	Property investment in Hong Kong

Name of associates	Place of incorporation and operation	Class of shares held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited.	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited.	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting

INFORMATION TECHNOLOGY

The Bank's strategy is to increase the use of information technology in its business, including its front-office and back-office operations, in order to enhance its business capabilities, products and services, and the Bank intends to continue upgrading its information technology capabilities in order to meet its growth objectives.

Since 2018, the Bank successively launched different features in its information technology system, achieving unified management in credit management, credit approval procedure, post-lending management and end-to-end risk pricing, thereby centralising financial information and standardising business procedures. The Bank completed the connection with the PRC government's resource system, attracting an inflow of government funds and increasing bank income. The Bank also optimised its electronic channel platform to enhance service quality and customer experience.

Following the implementation of the Robotic Process Automation (RPA) over the past two years, the Bank completed the SAS Anti-Money Laundering System for Screening, the Customer Data Collection and Screen Printing, the Purchase Order Payment and other administrative, settlement and compliance automation projects. These helped to save more than 600 hours of processing time per month. The Bank has also accelerated the implementation of RegTech, including the implementation of automated customer due diligence processes and automated anti-money laundering transaction monitoring processes. The Bank's Mainland institutions have also implemented process automation in online banking operations and supervisory data monitoring to reduce manual processing time and human errors, and thus enhance operational efficiency. The Bank was committed to optimising its electronic service channels by introducing RMB "Cloud Rate", expanding deposit term options and launching new digital banking customer promotions. The time deposits made through electronic channels increased by 100% during the year ended 31 December 2024.

The Bank's successful launch of the new core banking system in Hong Kong and Macau in April and October 2021 respectively signifies the establishment of a core operational foundation to enable the Bank to push ahead with its digital transformation. With the support of the new core banking system, the Bank continues to invest more resources in the digital transformation to create business value by empowering different operational areas with the latest technology.

With a focus on the digital banking customer experience, the Bank introduced a number of functional enhancements. These included the opening of Chong Hing Securities account through Mobile Banking referral, activation of the Internet Banking services by online deposit accounts, the instant opening of Internet Banking accounts at branches, the online reactivation of dormant accounts, and a customer referral programme for online transactions. Through digital banking promotions, the Bank was able to reach out to customers through multiple channels and promote diversified online products. This effectively increased customer stickiness and doubled the transaction conversion rate year-on-year. Approximately 88.4% of new customers converted to digital banking in 2024, with online financial transactions increasing by 122% year-on-year.

The Bank closely follows the development trend of fintech digitalisation, focusing on enhancing the usability and customer experience of digital services, achieved significant breakthroughs in digital transformation for the year. In terms of personal retail services, the new generation of personal digital platform was comprehensively upgraded in June 2024. The new interface design, with improvements to product functions on the theme of "friendlier, easier and smarter", provides customers with experience of one-stop online wealth management services via the new "electronic Know Your Customer" (eKYC) technology. Remote account opening services have significantly increased the number of new accounts, ushering in a new era of online customer acquisition for the Bank. Focusing on customers' cross-border consumption needs, the Bank launched a series of leisure and shopping offers in Hong Kong and Mainland China, and built a new development model for remote customer acquisition by combining online and offline scenario-based marketing. In terms of corporate financial services, the Bank continued to develop distinctive online business functions on the new corporate digital platform. Online services such as cloud rate for time deposit, corporate payroll and bulk transfer have delivered remarkable customer acquisition results. The new bank-enterprise interconnection and cash management platform provides a more professional and comprehensive settlement platform for customers.

PROPERTIES

The Bank currently owns properties with an aggregate floor area of approximately 166,028 square feet in Hong Kong. Most of the Bank's properties are used as banking offices, as branches or for back-office operations. The remainder are currently leased to third parties. In addition, the Bank also leases properties with an aggregate floor area of approximately 134,372 square feet in Hong Kong. These leased properties are used as banking offices, as branches and for back-office operations.

INTELLECTUAL PROPERTY

The Bank relies on domain name registrations to establish and protect its internet domain names. The Bank has registered a number of internet domain names, including "www.chbank.com" and "www.chbank.com.hk".

The Bank has registered "創興銀行 Chong Hing Bank" as a trade-mark in Hong Kong, Macau, the PRC and the USA. To reflect the new ownership structure of the Bank, its logo was changed from "創興銀行 Chong Hing Bank" to "創興銀行 Chong Hing Bank" in 2014. The Bank has registered "創興銀行 Chong Hing Bank" as a trademark in Hong Kong, Macau, the PRC and the USA.

INSURANCE

The Bank maintains various types of insurance coverage, including property insurance to cover the loss of or damage to building structure and content, electronic equipment and motor vehicles; insurance to cover loss of property due to burglary, theft and robbery; public liability insurance to cover legal liability as a result of physical bodily injury and/or property damage caused to third parties; bankers blanket bonds insurance to cover the loss resulting from fraudulent acts (including computer-related crimes) by employees, loss of money on premises and in transit and forgery of bank instruments; directors' and officers' liability insurance to cover the personal liability of the Bank's officers against any claims resulting from any wrongful act committed in connection with carrying out their duties as officers of the Bank; employees' liability insurance as required by the Employees' Compensation Ordinance (Cap. 282) of Hong Kong; cybersecurity insurance to cover the loss resulting from security breach or system failure and the third party liability arising out of information security and data privacy issue; and group medical insurance for its workforce. The Bank also requires borrowers to obtain appropriate insurance coverage for security provided by them.

COMPETITION

The Hong Kong banking industry is mature and the Bank faces intense competition from a number of Hong Kong incorporated banks and branches of international banks, particularly in the home mortgage lending sector and deposit-taking business. In addition, the Bank faces keen competition from local finance companies in certain areas of its business, such as credit cards and personal loans. Furthermore, the Bank may also be subject to increased competition from virtual banking companies entering the Hong Kong banking industry as the operations of these virtual banking companies may overlap with the Bank's business. See "*Investment Considerations – Risks Relating to the Bank – Competition in the Hong Kong and PRC banking industries*".

Given the increasing competition among local banks as well as virtual banking companies in Hong Kong, the Bank has decided to focus on diversifying its revenue sources and increasing its fee-based income, particularly from its wealth management, life insurance and retail investment businesses. In addition, like many of the local banks in Hong Kong, the Bank is now focusing on expanding its presence in the PRC. However, in view of the fact that certain restrictions previously imposed on foreign banks in the PRC have recently been lifted, the Bank expects competition to continue to increase in the region.

For a further discussion of the risks of competition faced by the Bank in Hong Kong, see "*Investment Considerations – Risks Relating to the Bank*".

LITIGATION

Neither the Bank nor any of its subsidiaries is currently involved in any litigation, arbitration or similar proceedings in any material respect and the Bank is not aware of any such proceedings pending or threatened against it or any of its subsidiaries which are or might be material in the context of the issue of the Instruments.

EMPLOYEES

As at 31 December 2024, the Bank had a total of 1,787 employees as set forth in the following table:

	No. of employees
Head office and branches in Hong Kong	1,175
Outside of Hong Kong (including the PRC and Macau)	534
Subsidiaries	78
Total	1,787

Approximately 21.5% of the Bank's employees as at 31 December 2024 performed managerial and management functions.

The Bank views its employees as an asset and believes that investment in human resources is critical to its growth. The Bank has internal and external training programmes aimed at management development and team building. The Bank's training curriculum includes courses on banking operations, product knowledge, marketing, management skills, risk management, financial technology and customer service.

The Bank believes that it enjoys a good relationship with its employees. None of the Bank's employees are members of a trade union. The Bank provides staff preferential housing loans, life and medical insurance benefits and maintains a pension fund scheme for its employees.

SELECTED STATISTICAL AND OTHER INFORMATION

The selected statistical and other information set forth below relates only to the Bank and has, except where otherwise indicated, been compiled as at and for each of the three years ended 31 December 2022, 2023 and 2024 and should be read in conjunction with the information contained elsewhere in this Offering Circular, including "Description of the Bank". The audited consolidated financial statements for the years ended 31 December 2023 and 2024 were audited by Ernst & Young.

ADVANCE PORTFOLIO

Overview

As at 31 December 2024, the Bank's total outstanding gross advances to customers were HK$161,250.4 million (U.S.$20,758.0 million), which represented 50.1% of its total assets. The majority of the Bank's advances are in respect of residential mortgages and advances for property investment and development for use in Hong Kong, which together represented 12.6% (excluding advances under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenant Purchase Scheme) of the Bank's total advances to customers as at 31 December 2024.

The table below sets forth a summary of the Bank's gross advances by sector as at the dates indicated.

	As at 31 December					
	2022	Percentage of total	2023	Percentage of total	2024	Percentage of total
	(HK$ millions, except percentages)					
Loans for use in Hong Kong						
– Industrial, commercial and financial						
– Property development	5,262,351	3.16%	4,736,383	2.92%	4,540,240	2.82%
– Property investment	6,652,635	3.99%	4,922,367	3.04%	5,252,736	3.26%
– Financial concerns	13,022,464	7.81%	13,052,347	8.05%	16,187,126	10.04%
– Stockbrokers	1,754,576	1.05%	1,742,202	1.07%	2,255,203	1.40%
– Wholesale and retail trade	4,472,136	2.68%	5,664,090	3.49%	5,748,205	3.56%
– Manufacturing	2,846,686	1.71%	2,273,619	1.40%	1,728,521	1.07%
– Transport and transport equipment	3,877,866	2.33%	3,790,413	2.34%	3,611,383	2.24%
– Recreational activities	343	0.00%	–	–	–	0.00%
– Information technology	341,004	0.20%	2,033,596	1.25%	2,789,394	1.73%
– Others(1)	10,465,343	6.28%	12,973,443	8.00%	14,360,855	8.91%
– Individuals						
– Loans for the purchase of flats under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenant Purchase Scheme	329,299	0.20%	281,352	0.17%	252,865	0.16%
– Loan for the purchase of other residential properties	7,474,832	4.48%	7,679,706	4.74%	10,488,944	6.50%
– Credit card advances	58,433	0.04%	61,794	0.04%	59,073	0.04%
– Others(2)	5,058,674	3.03%	4,927,791	3.04%	5,233,580	3.25%
Sub-total	61,616,642	36.96%	64,139,103	39.55%	72,508,125	44.97%
Trade finance	2,675,089	1.60%	1,755,900	1.08%	2,505,549	1.55%
Loans for use outside Hong Kong	102,412,402	61.43%	96,270,618	59.37%	86,236,716	53.48%
Total advances to customers	166,704,133	100%	162,165,621	100%	161,250,390	100%

Notes:

(1) Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.

(2) Major items mainly included loans to professionals and other individuals for various private purposes.

Geographic concentration

The table below sets forth a summary of the Bank's gross advances to customers by geographical location as at the dates indicated.

	As at 31 December					
	2022	Percentage of total	2023	Percentage of total	2024	Percentage of total
	(HK$ millions, except percentages)					
Hong Kong	100,814,545	60.5%	93,608,244	57.7%	96,870,086	60.1%
PRC	55,873,388	33.5%	53,695,416	33.1%	58,691,070	36.4%
Macau	5,576,714	3.3%	4,514,234	2.8%	4,022,982	2.5%
Others	4,439,486	2.7%	10,347,727	6.4%	1,666,252	1.0%
Total	166,704,133	100%	162,165,621	100%	161,250,390	100%

Advance analysis

Approximately 16.9% of advances had a remaining maturity of more than five years as at 31 December 2024. As at 31 December 2024, more than half of advances made by the Bank, excluding branches outside of Hong Kong, were at floating rates of interest (see "*Asset and Liability Management*" under this section), with the balance being made at fixed interest rates. The average rates for residential mortgage advances and commercial mortgage advances in Hong Kong are 6.34% for HIBOR-based advances and 2.95% for Prime-based advances. As at 31 December 2024, more than half of advances made by the Bank were denominated in Hong Kong dollars.

As at 31 December 2024, HK$56,746.9 million loans and advances were secured by collateral. Residential mortgages are secured by a first registered charge over the underlying property. Working capital advances for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term advances for specific projects or developments are typically secured against the underlying project's assets and its receivables, while additional guarantees are typically provided by the sponsors or shareholders. The Bank also receives guarantees in relation to certain of its other advances to cover, in the case of trade finance, any shortfall in security or, in the case of consumer advances to younger or less financially mature customers, to guarantee in what are otherwise unsecured advances.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extend the advances. In general, the collateral is periodically valued by an independent valuer to determine whether any additional collateral is required.

CREDIT POLICIES AND APPROVAL PROCEDURES

Management of credit risk

The Bank's lending policies have been formulated on the basis of its own experience, the Banking Ordinance, the Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Bank has delegated selected individuals with credit approval authority. These individuals consist of the Chief Risk Officer, Head of Credit Risk Management and experienced credit risk officers of the Bank. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Bank's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit risk officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets the underwriting standards of the Bank and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising senior executives of the Bank, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit risk officer.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk rating

The Bank uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being in default. Borrower and loan specific information, both quantitative and qualitative, such as profitability ratio and industry type for corporate banking customers, are fed into the rating model to estimate the default risk. The internal credit rating is applied on corporate counterparties.

Expected credit loss measurement

HKFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition.

A financial instrument that has not had significant changes in credit risk ("**SICR**") since initial recognition or that has low credit risk at the reporting date is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Financial instruments in Stage 1 have their Expected Credit Loss ("**ECL**") measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward looking information.

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the Bank to be statistically credible.

Where sufficient information is not available internally, the Bank has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into mortgage, credit card, overdraft, and personal loan.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions etc. Credit limit is also considered to further classify the corporate loans into top tier corporate loan and normal corporate loan.

Treasury

The treasury exposures are grouped based on the issuer type – bank, corporate and sovereign.

Others

For exposures from subsidiaries and overseas branches and sub-branches, they are grouped based on the business type of the subsidiaries and geographic location of the overseas branches and sub-branches.

Determining criteria for SICR

The Bank assesses whether there is a significant increase in risk of a credit exposure since origination at the reporting date. While determining the significant increase in credit risk, the Bank considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, a sub-group of a portfolio and groups of portfolios. The Bank's internal lending policy and other credit risk management procedures are referenced as well as benchmarking with industry practice.

The Bank adopts "Policy & Procedures for Loan Classification" based on Monetary Authority guidelines. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being in default.

The Bank also maintains an Early Warning ("**EW**") list, which includes borrowers who exhibit risks or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. The EW accounts are classified into three categories, namely Low Risk, Medium Risk and High Risk.

A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):

- contractual payments are equal to or more than 30 days and less than 90 days past due;
- loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification";
- significant change in external credit rating, i.e. migrating from investment grade to speculative grade (applicable to treasury portfolios only);

- any Medium or High Risk borrower in the EW List. High risk EW borrowers present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW borrowers exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk borrowers are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of their creditworthiness and they are placed on early warning solely for precautionary purpose, elevated attention and closer monitoring; and

- any facility with current credit risk rating downgraded by two or more notches compared with the credit risk rating at origination (applicable to top tier corporate loan and normal corporate loan only).

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. It prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- mortgages over residential properties;

- margin agreement for derivatives, for which the Bank has also entered into master netting agreements;

- charges over business premises; and

- charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

As at 31 December 2024, the fair value of collateral held by the Bank that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$1,702.3 million. The Bank had not sold or re-pledged such collateral. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

The Bank's policies regarding obtaining collateral have not significantly changed during the year ended 31 December 2024 and there has been no significant change in the overall quality of the collateral held by the Bank since 31 December 2023.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses.

ASSET QUALITY

Overview

The performance of the Hong Kong economy is heavily dependent on the property sector, and the Bank's advances in respect of residential mortgages and advances for property investment and development (excluding advances under the Home Ownership Scheme, the Private Sector Participation

Scheme and the Tenant Purchase Scheme) accounted for 12.6% of the Bank's total advances to customers as at 31 December 2024. As a result, the Bank's asset quality is vulnerable to a decline in property prices. The ability of borrowers, including homeowners, to make timely repayment of their indebtedness may be adversely affected by rising interest rates or a slowdown in economic recovery. As at 31 December 2024, property-related usage advances (including advances under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenant Purchase Scheme) accounted for HK$20,534.8 million (U.S.$2,643.5 million) or 12.7% of the Bank's total advances to customers and accounted for one of the largest segments of the Bank's total advances to customers. See "*Investment Considerations – Risks Relating to the Bank – Exposure to the Hong Kong Property Market*".

Appropriate precautionary measures are taken to minimise credit loss arising from impaired loans and such measures include the monitoring of key indicators, such as account conduct, business performance, financial data, industry prospect, etc., and selecting an appropriate strategy, such as exit, request for additional collateral or suspension of limit for high-risk customers. Precautionary measures against exposure to bank counterparties include the daily monitoring of movements in share price and prices of credit default swaps and the escalation to watch-list for further monitoring and actions, such as the suspension of unadvised limits, as considered appropriate by the Bank's Asset and Liability Management Committee ("**ALCO**").

The Bank's preference for lending secured by security interests over chattels and real property and its conservative policy on loan-to-value ratios have helped to enable effective recovery actions on impaired loans.

The Bank conducts regular stress tests on customer loan portfolios, secured property values and exposure to bank counterparties to ensure that the level of risk assumed by the Bank is appropriate for the Bank.

Impaired loans are individually assessed loans with objective evidence of impairment.

The Bank believes that its advance classification policy is in compliance with the Banking Ordinance and the applicable guidelines of the Monetary Authority.

As at the date of this Offering Circular, the Bank has a credit rating of "BBB" from Fitch Ratings and a credit rating of "Baa3" from Moody's.

Loss allowance

The following tables explain the changes in the loss allowance between the beginning and the end of the year 2024 due to these factors:

Advances to customers

	2024							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure	Impairment Allowance	Gross exposure	Impairment Allowance	Gross exposure	Impairment Allowance	Gross exposure	Impairment Allowance
	HK$'000							
Balance at 1 January	148,411,467	546,185	9,086,608	238,665	4,667,546	1,547,488	162,165,621	2,332,338
Transfers:								
Transfer from Stage 1 to Stage 2	(1,696,609)	(3,111)	1,696,609	80,803	–	–	–	77,692
Transfer from Stage 2 to Stage 1	2,756,220	5,608	(2,756,220)	(18,093)	–	–	–	(12,485)
Transfer to Stage 3	(1,253,495)	(10,334)	(1,227,295)	(91,202)	2,480,790	996,748	–	895,212
Transfer from Stage 3	12,905	6	13,317	43	(26,222)	(298)	–	(249)
Net new financial assets originated/ (asset derecognised)	6,664,906	63,983	(406,378)	(4,366)	(356,521)	–	5,902,007	59,617
Changes in PDs/LGDs/EADs	(1,400,038)	(81,387)	179,737	5,118	411,003	1,389,652	(809,298)	1,313,383
Changes in model assumption and methodologies	–	39,152	–	(7,980)	–	–	–	31,172
Amounts written off	–	–	–	–	(2,052,062)	(2,052,062)	(2,052,062)	(2,052,062)
Other movements	(3,804,420)	(19,143)	(145,996)	(2,955)	(5,462)	7,515	(3,955,878)	(14,583)
Balance at 31 December	149,690,936	540,959	6,440,382	200,033	5,119,072	1,889,043	161,250,390	2,630,035

	Total
	HK$'000
Change in ECL in income statement charge for the year	2,364,342
Add: Recoveries	(17,441)
Add: Others	(45,059)
Total ECL charge for the year	2,301,842

Debt securities

	2024			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	HK$'000			
Balance at 1 January	55,371	19,486	–	74,857
Transfers:				
Transfer from Stage 1 to Stage 2	(106)	1,399	–	1,293
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	(16,272)	(263)	–	(16,535)
Changes in PDs/LGDs/EADs	897	(4,127)	–	(3,230)
Changes in model assumption and methodologies	–	–	–	–
Other movements	(1,405)	(191)	–	(1,596)
Balance at 31 December	38,485	16,304	–	54,789
Of which:				
For debt securities at amortised cost	1,729	–	–	1,729
For debt securities at fair value through other comprehensive income ("**FVOCI**")	36,756	16,304	–	53,060

The impairment allowances of debt securities at FVOCI is not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

Loan commitments and financial guarantee contracts

	2024			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	HK$'000			
Internal credit grading				
Pass	12,723,994	549,629	–	13,273,623
Special mention	–	–	–	–
Substandard	–	–	122,100	122,100
Doubtful	–	–	–	–
Loss	–	–	–	–
Balance at 31 December	12,723,994	549,629	122,100	13,395,723
Impairment allowance	35,954	39,060	37,682	112,696

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2024				
	Gross loans and advances	**Stage 1 & Stage 2 impairment allowances**	**Stage 3 impairment allowances**	**Loans and advances secured by collateral**(1)	**Gross impaired advances**
	HK$'000				
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,540,240	25,999	176,570	1,387,845	795,023
– Property investment	5,252,736	14,130	44	4,290,719	3,197
– Financial concerns	16,187,126	2,973	–	101,671	–
– Stockbrokers	2,255,203	607	–	9,229	–
– Wholesale and retail trade	5,748,205	21,332	6,466	2,831,720	8,144
– Manufacturing	1,728,521	7,634	–	393,517	–
– Transport and transport equipment	3,611,383	8,056	15	270,456	71
– Information technology	2,789,394	10,527	–	–	–
– Others(2)	14,360,855	80,606	200,563	7,778,783	595,731
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	252,865	190	109	250,557	5,049
– Loans for the purchase of other residential properties	10,488,944	7,070	1,586	10,386,760	38,139
– Credit card advances	59,073	77	348	–	369
– Others(3)	5,233,580	12,254	2,499	4,481,467	79,187
	72,508,125	191,455	388,200	32,182,724	1,524,910
Trade finance	2,505,549	9,092	25,521	183,583	31,687
Loans for use outside Hong Kong	86,236,716	540,445	1,475,322	24,380,633	3,562,475

	31 December 2023				
	Gross loans and advances	Stage 1 & Stage 2 impairment allowances	Stage 3 impairment allowances	Loans and advances secured by collateral(1)	Gross impaired advances
			HK$'000		
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,736,383	33,243	6,411	2,575,257	11,443
– Property investment	4,922,367	16,395	–	3,591,533	2,037
– Financial concerns	13,052,347	2,215	–	333,298	–
– Stockbrokers	1,742,202	603	–	1,226,676	–
– Wholesale and retail trade	5,664,090	15,858	56,908	2,845,889	66,012
– Manufacturing	2,273,619	6,674	–	–	–
– Transport and transport equipment	3,790,413	5,527	–	709,283	–
– Recreational activities	–	–	–	311,718	167
– Information technology	2,033,596	2,328	–	978,848	2,893
– Others(2)	12,973,443	60,909	75,661	6,221,212	75,665
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	281,352	144	–	281,354	4,252
– Loans for the purchase of other residential properties	7,679,706	3,729	2,822	7,670,875	34,312
– Credit card advances	61,794	57	578	–	578
– Others(3)	4,927,791	7,617	3,264	2,815,755	86,509
	64,139,103	155,299	145,644	29,561,698	283,868
Trade finance	1,755,900	6,293	29,637	255,306	65,622
Loans for use outside Hong Kong	96,270,618	623,258	1,372,207	22,343,128	4,318,056

	31 December 2022				
	Gross loans and advances	Stage 1 & Stage 2 impairment allowances	Stage 3 impairment allowances	Loans and advances secured by collateral(1)	Gross impaired advances
			HK$'000		
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,262,351	21,174	–	2,627,571	–
– Property investment	6,652,635	10,027	–	6,327,618	15,788
– Financial concerns	13,022,464	1,736	–	811,682	–
– Stockbrokers	1,754,576	246	–	763,605	–
– Wholesale and retail trade	4,472,136	25,030	47,611	2,231,738	90,798
– Manufacturing	2,846,686	9,830	–	808,575	–
– Transport and transport equipment	3,877,866	11,398	6,687	380,768	7,449
– Recreational activities	343	–	–	343	–
– Information technology	341,004	2,401	–	41,000	–
– Others(2)	10,465,343	35,777	83,431	4,707,458	622,822
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	329,299	14	–	329,299	863
– Loans for the purchase of other residential properties	7,474,832	336	2,071	7,474,832	26,461
– Credit card advances	58,433	311	400	–	400
– Others(3)	5,058,674	3,577	2,599	3,164,282	20,222
	61,616,642	121,857	142,799	29,668,771	784,803
Trade finance	2,675,089	13,894	26,490	184,894	76,428
Loans for use outside Hong Kong	102,412,402	650,820	1,898,787	23,810,851	3,617,333

Notes:

(1) Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

(2) Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.

(3) Major items mainly included loans to professionals and other individuals for various private purposes.

Write-off

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 31 December 2024 was HK$2,052.1 million (U.S.$264.2 million).

The Bank still seeks to recover amounts it is legally owed in full, but which have been fully written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as at 31 December 2024 was HK$897.0 million (U.S.$115.5 million).

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of individual credit assessment.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year ended 31 December 2024 and its effect on the Bank's financial performance is considered immaterial:

	Advance to customers
	HK$' 000
Amortised cost before modification	305,376

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Bank's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets that best represent the maximum exposure to credit risk is disclosed in the tables below.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

Geographical locations

	Hong Kong	Asia Pacific excluding Hong Kong[1]	Others[2]	Total
		HK$'000		
At 31 December 2024				
Balances and placements with banks	26,038,353	58,234,904	8,044,972	92,318,229
Derivative financial instruments	615,780	244,510	1,272,697	2,132,987
Investment in securities	9,793,923	44,685,903	2,217,940	56,697,766
Advances and other accounts	104,879,500	59,999,711	1,949,004	166,828,215
	141,327,556	163,165,028	13,484,613	317,977,197
At 31 December 2023				
Balances and placements with banks	10,056,973	45,381,605	9,537,573	64,976,151
Derivative financial instruments	122,011	231,955	1,051,488	1,405,454
Investment in securities	14,361,026	46,348,923	7,760,831	68,470,780
Advances and other accounts	105,677,242	60,429,094	1,111,848	167,218,184
	130,217,252	152,391,577	19,461,740	302,070,569
At 31 December 2022				
Balances and placements with banks	4,787,217	31,523,153	3,427,264	39,737,634
Derivative financial instruments	206,363	158,817	1,245,206	1,610,386
Investment in securities	15,979,958	36,164,356	13,394,695	65,539,009
Advances and other accounts	100,366,835	68,454,817	1,545,865	170,367,517
	121,340,373	136,301,143	19,613,030	277,254,546

Notes:

(1) The countries reported in "Asia Pacific excluding Hong Kong" mainly included the PRC, Japan, Australia and other Asian countries.

(2) The countries reported in "Others" mainly included Canada, the United States and other European countries.

Industry sectors

	Banks and other financial institutions	Central governments and central banks	Public sector entities	Corporate entities	Others	Total
			HK$'000			
At 31 December 2024						
Balances and placements with banks	88,968,457	3,349,772	–	–	–	92,318,229
Derivative financial instruments	2,095,606	–	–	37,381	–	2,132,987
Investment in securities	22,372,593	24,108,724	75,479	10,140,970	–	56,697,766
Advances and other accounts	15,055,883	3,089,975	1,070,683	130,416,183	17,195,491	166,828,215
	128,492,539	30,548,471	1,146,162	140,594,534	17,195,491	317,977,197
At 31 December 2023						
Balances and placements with banks	59,310,783	5,665,368	–	–	–	64,976,151
Derivative financial instruments	1,145,190	–	–	260,264	–	1,405,454
Investment in securities	31,762,068	26,606,698	–	10,102,014	–	68,470,780
Advances and other accounts	14,967,414	3,075,825	201,786	134,883,714	14,089,445	167,218,184
	107,185,455	35,347,891	201,786	145,245,992	14,089,445	302,070,569
At 31 December 2022						
Balances and placements with banks	35,452,854	4,284,780	–	–	–	39,737,634
Derivative financial instruments	596,962	–	–	1,013,424	–	1,610,386
Investment in securities	11,673,915	26,678,041	–	27,187,053	–	65,539,009
Advances and other accounts	19,666,223	3,605,359	1,201,711	131,140,905	14,753,319	170,367,517
	67,389,954	34,568,180	1,201,711	159,341,382	14,753,319	277,254,546

Impaired loans which have been restructured

The Bank's impaired loans are restructured on a case-by-case basis, subject to the approval of the appropriate lending parties for both the restructured limits and recovery measures. The Bank maintains a prudent reclassification policy. For example, if payments under an advance are rescheduled, that advance will not be reclassified and will remain under adverse classification (either as a sub-standard or doubtful advance) and may only be upgraded to a pass advance if the revised payment terms are honoured for a period of six months, in the case of monthly payments, and 12 months, in the case of quarterly or semi-annual repayments.

The following table sets forth, as at the dates indicated, the Bank's impaired loans including those that have been restructured through the rescheduling of principal repayments and deferral or waiver of interest.

	Year ended 31 December		
	2022	**2023**	**2024**
	(HK$'000, except percentages)		
Gross impaired loans	4,478,564	4,667,546	5,119,072
Less: Impairment allowances	(2,068,076)	(1,547,488)	(1,889,043)
Net impaired loans	2,410,488	3,120.058	3,230,029
Gross impaired loans as a percentage of gross advances to customers	2.69%	2.86%	3.14%
Market value of collateral pledged	918,662	985,443	2,016,686

ASSET AND LIABILITY MANAGEMENT

The Bank's asset and liability management is steered by the ALCO. The ALCO establishes policies and guidelines in respect of the maturity, pricing and volume of non-capital funding such that the Bank obtains funds in the most efficient and effective manner. Capital planning also comes under the supervision and review of the ALCO. The deployment of funds into various asset classes is reviewed regularly by the ALCO, having regard to the policies laid down for the management of the credit risk, the liquidity risk, the interest rate risk and the market risk. The ALCO consists of the senior executives of the Bank.

Two key aspects of the Bank's asset and liability policy are liquidity risk management and interest rate risk management.

Liquidity Risk Management

Liquidity risk

Liquidity risk is the risk that the Bank may not be able to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses. Liquidity problems can have an adverse impact on the Bank's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Bank which is otherwise solvent.

Principal objective

The principal objective of the Bank's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Bank has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Bank conducts cash flow analysis to ensure that the Bank has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("**SPM LM-2**"). This also provides a foundation to other risk management tools including stress-testing and the contingency funding plan.

Governance of liquidity risk management

The Bank adopts a robust liquidity risk appetite/tolerance including statutory liquidity ratios and key liquidity metrics to reasonably balance the levels of risk and earnings based on the Bank's own strategies, financial strength and market position, to ensure its ability to provide stable, reliable and sufficient sources of funds under normal or stressed scenarios, so as to satisfy liquidity requirements.

The Bank adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Bank as well as regulatory policies. The Bank's head office is ultimately responsible for managing the Bank's overall liquidity risk, while the branches outside Hong Kong in Macau and the PRC manage their own liquidity risk pursuant to the Bank's head office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to the Bank's head office.

The management of the Bank's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and designated committees and approved by the Board. Key features of liquidity position, and management strategies, risk appetite as well as, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The Board has the ultimate responsibility for liquidity risk management. The Executive Committee is delegated by the Board to oversee liquidity risk management. The ALCO is further delegated by the Executive Committee to oversee the Bank's day-to-day liquidity risk management. It is responsible for monitoring and controlling the Bank's liquidity position through ongoing and periodic review of different liquidity metrics, including but not limited to the statutory liquidity maintenance ratio and core funding ratio, the maturity mismatch of assets and liabilities, loan-to-deposit ratio, normal and stressed cash flow projections and inter-bank/intragroup transactions. The Bank uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

The Treasury Division is responsible for the Bank's intraday and day-to-day management of cash flow and liquidity positions while the Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, liquidity maintenance ratio, liquidity and funding statements. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or the designated committees, whilst seeking their advice or instructions on mitigating measures.

With the changing environment, market factors, balance sheet movement and liquidity situation, liquidity risk strategies are discussed in the ALCO meetings and communicated with the business lines, the heads of which are the ALCO members. The Liquidity Risk Management Policy which consists of liquidity risk appetite and management strategies is approved by the Board at least annually.

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Bank's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Bank manages liquidity risk by conducting cash flow analysis arising from on- and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Bank's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators exceptions to which should be reported, and the allocation of liquidity costs. The last line of defence is to ensure that the Bank has funding capacity, supported by a good reputation and a liquidity cushion.

The Bank also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Bank's stress-testing. The Bank does not engage in any transactions which give rise to the need for providing liquidity support.

Funding strategies

The Bank has a strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit, repurchase agreements and swap markets. The Bank takes into account the maturity profile of funding. The funding strategy is centralised through the ALCO and delivered to the Treasury Division and different business lines to execute. All of these are part of the Bank's funding strategy. To manage the funding diversification, a set of concentration indicators and early warning indicators ("**EWIs**") is in place.

The Bank's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Bank's policy that the Bank's head office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to pre-set limits so as to encourage them to source their own funding in the local markets.

Liquidity risk mitigation techniques

In order to address and mitigate market liquidity risk, the Bank maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Bank deploys funds in good credit quality debt securities with deep and liquid markets to ensure short-term funding requirements can be covered within prudent limits. The Bank periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, structured simply and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government-issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Bank to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Bank is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Bank.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion:

Internal Categorisation	Basic Criteria	As at 31 December 2022	As at 31 December 2023	As at 31 December 2024
			HK$'000	
Tier 1	Debt Securities issued by sovereigns or central banks or public sector entities with 0% risk-weight	16,186,042	12,151,282	10,106,041
Tier 2	Other investment grade debt securities	26,753,425	16,584,863	12,214,125

The Bank's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. The ALCO reviews the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Stress-testing

The Bank supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. The Bank's Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the SPM LM-2 and the Supervisory Policy Manual IC-5 ("**SPM IC-5**"), and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO, the Risk Management Committee and the Executive Committee and approved by the Risk Committee.

In performing the stress-testing on liquidity risk, the Bank adopts the cash flow analysis which has taken into consideration various macroscopic and microscopic factors in line with the characteristics and complexity of the Bank's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioural assumptions are considered to address both funding and market liquidity risks. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Bank identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Bank also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Bank to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Bank uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plans to mitigate potential stresses and vulnerabilities which the Bank might face.

Contingency funding plan

The Bank distinguishes between different stages of a liquidity crisis that the Bank may face, namely:

(a) funding stress;

(b) liquidity drain;

(c) bank run; and

(d) recovery zone.

The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress-testing performed.

The Bank's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Bank's immediate action plan in order to react to an emergency. It covers three major components:

(a) pre-defined conditions to activate the plan;

(b) the Bank's strategy and potential funding options to deal with different crisis scenarios; and

(c) practical action plans and procedures with clear responsibilities of management and its supporting teams.

The ALCO would be called during liquidity crisis to ensure business continuity of the Bank.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, a drill test is conducted by the Bank on an annual basis.

Interest Rate Risk Management

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favour of the Bank, but may also result in negative impacts in the event that unexpected or adverse movement arises.

Interest rate risks comprise those originating from both trading and non-trading portfolios, and the Bank's interest rate risk exposure is mainly contributed by the non-trading portfolio. In the non-trading portfolio, the management of the Bank's interest rate risk in banking book ("**IRRBB**") is governed by the Interest Rate Risk Management Policy which is reviewed and endorsed by the ALCO and approved by the Executive Committee. The Bank also manages its IRRBB within the IRRBB limits approved by the ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both the ALCO and the Risk Management Committee for senior management oversight. In trading portfolio, specific limits are approved by the Risk Management Committee on interest rate sensitivities (also known as DV01) and stop loss, which are monitored on a daily basis. The Bank maintains manageable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Bank's own risk with holding securities that are classified as the trading purpose.

The Bank also manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary, and non-hedged positions will contain within the normal banking businesses where the risks originate.

Interest rate risk in banking book

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

The Bank manages its IRRBB exposures using economic value as well as earnings-based measures.

The economic value is measured from present value of its expected net cash flows of assets, liabilities and off-balance sheet positions held with the Bank, discounted to reflect market rates. Thereby the Bank measures the change in Economic Value of Equity as the maximum decrease of the banking book economic value under the six standard scenarios defined by the Monetary Authority's Supervisory Policy Manual.

Earnings-based measures address the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten financial stability by undermining the Bank's capital adequacy and by reducing market confidence in it. The Bank measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

The calculation of the IRRBB gapping is processed through an automatic system on a daily basis. The Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cash flows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various business models, including prepayment models, early-redemption models and behavioural models for non-maturity deposits ("**NMDs**").

The Bank manages the interest rate risk exposures for its NMDs through a co-integration model for deposit volume on the core deposit ratio and decay rate approach on behavioural maturity. For the core deposit ratio, the Bank follows regulatory guidelines by first estimating the stable deposit ratio using the Bank's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Bank aims to measure the percentage of stable deposits that would remain with the Bank even under significant interest rate changes. In estimating behavioural maturity, the Bank follows the run-off approach, which estimates the decay rate of the deposit balance. The behavioural maturity is obtained based on the decay-rate estimates.

In the loan and some of the term deposit products, the Bank takes into account early prepayment/ withdrawal behaviour of its customers. The parameters are based on historical observations, statistical analyses and expert assessments. Furthermore, the Bank generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive and forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Bank conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

INTERNAL AUDITING

The Internal Audit Division has responsibility for auditing the Bank's operations. Through regular audits of all of the departments, subsidiaries and branches of the Bank, the Internal Audit Division reviews and evaluates the adequacy and effectiveness of internal controls, safeguards the Bank's assets, reviews operations in terms of efficiency and effectiveness, assesses the reliability and integrity of financial and other operating matters and reviews compliance with established policies, procedures and relevant statutory requirements. The results of an internal audit are reported to senior management, the Audit Committee and the head of the relevant audited department, subsidiary or branch, and any internal audit recommendations are generally expected to be implemented within a reasonable period of time after the issuance of the internal audit report. Significant findings arising from internal audits are summarised semi-annually for reporting to the Audit Committee. The significant findings are also shared with the Hong Kong Monetary Authority and the Bank's external auditor on a regular basis.

In 2024, the Bank engaged an external consultant Deloitte Advisory (Hong Kong) Limited to perform an external quality assurance review of the Internal Audit Division. The review report concluded that the Internal Audit Division has complied with the Hong Kong Monetary Authority Supervisory Policy Manual IC-2 Internal Audit Function requirements, and the International Standards for the Professional Practice of Internal Auditing.

BOARD OF DIRECTORS AND EXECUTIVES

The Bank is managed by its Board of Directors, which is responsible for the direction and management of the Bank. The Articles of Association of the Bank require that there should not be less than six Directors, unless and until otherwise determined by an ordinary resolution of the shareholders of the Bank. Directors are appointed either by the shareholders of the Bank at a general meeting or by the Board of Directors at any time provided that the Monetary Authority shall have consented in writing to that person being appointed as a Director.

BOARD OF DIRECTORS

The Board of Directors of the Bank is comprised of the following individuals:

Name	Title
Mr. ZONG Jianxin	Deputy Chairman, Executive Director and Chief Executive
Mr. LAU Wai Man	Executive Director and Deputy Chief Executive and Alternate Chief Executive
Mr. JIN Lin	Executive Director and Deputy Chief Executive
Mr. LI Feng	Non-executive Director and Chairman
Mr. LIN Zhaoyuan	Non-executive Director
Ms. CHEN Jing	Non-executive Director
Mr. CHENG Yuk Wo	Independent Non-executive Director
Mr. LEE Ka Lun	Independent Non-executive Director
Mr. YU Lup Fat Joseph	Independent Non-executive Director

Mr. ZONG Jianxin, ***Deputy Chairman, Executive Director and Chief Executive***

Mr. Zong has been appointed an Executive Director of the Bank since September 2015, and has been the Chief Executive and the Deputy Chairman of the Bank since April 2017 and May 2018 respectively. He also acted as Alternate Chief Executive, Deputy Managing Director and Head of Mainland Business Division of the Bank from May 2016 to April 2017, May 2015 to May 2018 and May 2015 to September 2022 respectively. Mr. Zong has been appointed an Executive Director of Yuexiu Financial Holdings Limited ("**Yuexiu Financial Holdings**", the sole shareholder of the Bank) since November 2015 and the Deputy Chairman and the Chief Executive of Yuexiu Financial Holdings since May 2018. He acted as Alternate Chief Executive of Yuexiu Financial Holdings from June 2016 to May 2018. He has been a Director and the Chief Executive of Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since August 2017. Mr. Zong has more than 30 years of banking experience, specialising in corporate banking, international business and investment banking business. He was an Executive Director and Alternate Chief Executive of Industrial and Commercial Bank of China (Asia) Limited ("**ICBC Asia**") from October 2010 to May 2015, and was also a Director of various subsidiaries of Industrial and Commercial Bank of China (Asia) Limited from December 2010 to May 2015. Mr. Zong held various positions in Industrial and Commercial Bank of China Limited, Shenzhen Branch from October 1999 to December 2009, with his last position as the Vice President. Mr. Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

Mr. LAU Wai Man, ***Executive Director, Deputy Chief Executive and Alternate Chief Executive***

Mr. Lau has been appointed an Executive Director of the Bank since August 2001 and was appointed as Deputy Managing Director in May 2016, and such title was changed to Deputy Chief Executive of the Bank in May 2018. Mr. Lau also acts as Alternate Chief Executive of the Bank and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank). He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings since February 2014, and has been appointed as Deputy Chief Executive since May 2018. Mr. Lau is also a Director of various subsidiaries of the Bank. Mr. Lau holds a Bachelor of Law degree and a Master of Business Administration degree. He is a Vice President of the Council of the Hong Kong Institute of Bankers, a Certified Financial Planner[CM], a member of the Hong Kong Institute of Certified Public Accountants and an Honorary Certified Banker.

He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr. Lau joined the Bank as the Chief Auditor in 1988, and was Deputy Chief Executive Officer from July 2007 to March 2013 and Chief Executive Officer from March 2013 to May 2016. Before joining the Bank, he had worked for an international bank and a global accounting firm.

Mr. JIN Lin, ***Executive Director and Deputy Chief Executive***

Mr. Jin has been appointed an Executive Director of the Bank since September 2024, and has been the Deputy Chief Executive and Head of Mainland Business Division of the Bank since September 2022. Mr. Jin has been an Executive Director and the Deputy Chief Executive of Yuexiu Financial Holdings since September 2024 and January 2025 respectively. Mr. Jin obtained a Master Degree of Management in Technical Economics and Management from The Harbin Institute of Technology and is qualified as a senior Economist. He has been engaged in the banking industry for more than 30 years and held senior management positions in national joint-stock commercial banks for substantial years. He has extensive experience and professional standards in banking management.

Mr. LI Feng, ***Non-executive Director***

Mr. Li has been appointed the Chairman of the Board of Directors and a Non-executive Director of the Bank since October 2023 and February 2014 respectively. Mr. Li is the Chief Capital Officer of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*) and Yue Xiu Enterprises (Holdings) Limited ("**YX Enterprises**"), mainly responsible for formulating and implementing major capital management, organising industrial development and financing coordination, optimising and deepening the customer resources management etc. of the Yue Xiu Group and is the press spokesperson of the Yue Xiu Group. Mr. Li is also a Non-executive Director of Yuexiu Financial Holdings, the Chairman of Yue Xiu Securities Holdings Limited, a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Hong Kong Stock Exchange) and a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (廣州越秀資本控股集團股份有限公司)(a company listed on the Shenzhen Stock Exchange (Stock Code: 000987)). Mr. Li graduated from the South China University of Technology majoring in Naval Architecture, and obtained a Master of Business Administration degree from Jinan University. He holds the qualification of a Senior Engineer in the PRC. Mr. Li is also the President of the Association of Guangzhou Belt and Road Investment Enterprises, a member of Guangzhou Housing Provident Fund Management Committee and a director of the Guangzhou People's Association for Friendship with Foreign Countries. Mr. Li joined YX Enterprises in December 2001; he is familiar with business of listed companies and the operations of capital markets and has extensive practical experience in capital operations.

Mr. LIN Zhaoyuan, ***Non-executive Director***

Mr. Lin has been appointed a Non-executive Director of the Bank since October 2023. Mr. Lin is the Chairman and an Executive Director of Yuexiu Property Company Limited ("**Yuexiu Property**", a company listed on the Hong Kong Stock Exchange (Stock Code: 00123)). He is also the respective Deputy Chairman, a Director and General Manager of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*) ("**Guangzhou Yue Xiu**"), 廣州越秀企業集團股份有限公司 (Guangzhou Yue Xiu Enterprises Holdings Limited*) and Yue Xiu Enterprises (Holdings) Limited ("**YX Enterprises**"), the Chairman of the Board of Guangzhou City Construction & Development Co., Ltd., and the Chairman and a Non-executive Director of Yuexiu Financial Holdings. Mr. Lin holds a Bachelor degree of Economics and a Master of Business Administration degree of the Sun Yat-sen University and the qualification of Mechanical Engineer. Mr. Lin had been the Vice Chairman and General Manager of Yuexiu Property, the Chairman of the Board of Guangzhou Paper Group Limited, an assistant to general manager and a deputy general manager of Guangzhou Yue Xiu and YX Enterprises, and the Chairman and a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Hong Kong Stock Exchange). Mr.

Lin has extensive experience in corporate management, sound and efficient management, cost control and corporate restructuring and development and is forward-looking and innovative in corporate operations and management.

Ms. CHEN Jing, ***Non-executive Director***

Ms. Chen has been a Non-executive Director of the Bank since August 2018. Ms. Chen is the Chief Financial Officer and General Manager of the Finance Department of YX Enterprises and Yue Xiu Enterprises (Holdings) Limited. Ms. Chen is an Executive Director and Chief Financial Officer of Yuexiu Property Company Limited (Stock Code: 00123) and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), both of which are companies listed on the Hong Kong Stock Exchange. She is also a Non-executive Director of Yuexiu Financial Holdings.

Ms. Chen graduated from the Xi'an Jiaotong University with a major in auditing, and holds a Master of Business Administration Degree from the School of Management and Economics of Beijing Institute of Technology and the qualifications of auditor and certified internal auditor. Ms. Chen joined YX Enterprises in July 2004 and was the Deputy General Manager of the Supervisory (Audit) Office and the General Manager of the Audit Department. Ms. Chen has participated in building systems to monitor the major risks and finance of YX Enterprises. Ms. Chen is well versed in risk management and internal control management, financial management of listed companies and has extensive experience in establishing a sound system for risk management and internal control, financial management for enterprises. Prior to joining YX Enterprises, Ms. Chen worked in the School of Business of Hubei University and Hisense Kelon Electrical Holdings Company Limited.

Mr. CHENG Yuk Wo, ***Independent Non-executive Director***

Mr. Cheng has been an Independent Non-executive Director of the Bank since September 2004. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since May 2017. Mr. Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from The University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Professional Accountants of Canada. Mr. Cheng has more than 30 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies.

In addition to his directorship in the Bank, Mr. Cheng is also an Independent Non-executive Director of a number of companies listed on the Hong Kong Stock Exchange, including CSI Properties Limited (Stock Code: 00497), CPMC Holdings Limited (Stock Code: 00906), Liu Chong Hing Investment Limited (Stock Code: 00194), Chia Tai Enterprises International Limited (Stock Code: 03839), Miricor Enterprises Holdings Limited (Stock Code: 01827), Somerley Capital Holdings Limited (Stock Code: 08439), Kidsland International Holdings Limited (Stock Code: 02122and China Renewable Energy Investment Limited (Stock Code: 00987), and an Independent Non-executive Director of C.P. Pokphand Co. Ltd. (Stock Code before delisting in January 2022: 00043). Besides, Mr. Cheng was an Independent Non-executive Director of C.P. Lotus Corporation (Stock Code before delisting before delisting in October 2019: 00121) from September 2004 to October 2019; DTXS Silk Road Investment Holdings Company Limited (Stock Code: 00620), a company listed on the Hong Kong Stock Exchange, from November 2015 to May 2020; HKC (Holdings) Limited (Stock Code before delisting in June 2021: 00190) from July 2004 to June 2021; Goldbond Group Holdings Limited (Stock Code before cancellation of listing in August 2021: 00172) from November 2007 to August 2021; and Top Spring International Holdings Limited (a company listed on the Hong Kong Stock Exchange (Stock Code: 03688)) from November 2010 to September 2024.

Mr. LEE Ka Lun, ***Independent Non-executive Director***

Mr. Lee has been an Independent Non-executive Director of the Bank since February 2014. Mr. Lee has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since November 2013. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), Chow Sang Sang Holdings International Limited (Stock Code: 00116) and Ever Harvest Group Holdings Limited (Stock Code: 01549), all of which are listed on the Hong Kong Stock Exchange. Besides, Mr. Lee was an Independent Non-executive Director of Medicskin Holdings Limited (Stock Code: 08307) from December 2014 to November 2022 and Best Mart 360 Holdings Limited (Stock Code: 02360) from December 2018 to September 2023. Mr. Lee is an accountant by profession and is a Fellow of the Association of Chartered Certified Accountants in UK. He has over 20 years of experience in banking and auditing.

Mr. YU Lup Fat Joseph, ***Independent Non-executive Director***

Mr. Yu has been an Independent Non-executive Director of the Bank since August 2015. Mr. Yu has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) and Yue Xiu Securities Holdings Limited and Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since August 2015, March 2021 and May 2021 respectively. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (a company listed on the Stock Exchange) (Stock Code: 00123). Mr. Yu holds a Master Degree in Applied Finance from Macquarie University in Australia, a Diploma of Management Studies from The University of Hong Kong and a Diploma from the Association of International Bond Dealers. Mr. Yu was the Founding President of the Hong Kong Forex Club from 1974 to 1975. Mr. Yu was also the Founding Deputy Chairman of the Hong Kong Capital Markets Association and Asia Chairman of the Association of International Bond Dealers. Mr. Yu has held numerous senior managerial and advisory positions and has more than 40 years of experience in investment, banking and finance.

ORGANISATION

The Bank, in designing its management structure, has appointed a number of independent directors and established various committees to assist the Board in supervising the Bank. For example, the Audit Committee comprises three Independent Non-executive Directors and two Non-executive Directors and is required, amongst other things, to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards, to review any engagement of external auditor for the provision of non-audit services, to review the half-yearly and annual reports and accounts before submission to the Board, to receive audit reports and review the external auditors' management letter, to review audit and/or investigation reports submitted by the Chief Auditor, to review the Monetary Authority's on-site examination reports and bring major findings to the attention of the Board, and to assess and consider the adequacy and effectiveness of the Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance. The Nomination and Remuneration Committee comprises five members, including three Independent Non-executive Directors and two Non-executive Directors. The Nomination and Remuneration Committee is responsible for, amongst other things, reviewing and making recommendations to the Board on the structure, size, composition and diversity of the Board and its committees, identifying potential candidate suitably qualified to become Directors or take up designated Senior Management or Key Personnel positions of the Bank, reviewing and making recommendations to the Board on the Remuneration Policy of the Group by taking into account the pay and conditions across the Group's individual remuneration packages for Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Group's risk profile, ensuring that the remuneration frameworks and decisions shall be developed in a manner that is appropriate and in line with the Group's corporate culture, risk appetite, risk culture, long-term interests, performance and control environment; ensuring that no Director, Senior Management, Key Personnel or Risk Control Personnel will be involved in deciding his/her own remuneration; and assisting the Board in carrying out the Bank's corporate culture-related duties.

The Executive Committee, which comprises eight members including three Executive Directors and other senior executives of the Bank, exercises its powers, authorities and discretions as delegated by the Board to manage the day-to-day operations of the Group in accordance with its Terms of Reference and such other policies and directives as the Board may determine from time to time. The Risk Committee, which comprises four members, the majority of whom are Independent Non-executive Directors, is responsible for, amongst other things, advising the Board on overall risk appetite/tolerance and risk management strategies of the Group, and overseeing senior management's implementation of those strategies that are established and approved by the Board and aligned with the Bank's overall business objectives. In performing its role, the Risk Committee is supported by the Bank's Risk Management Committee and its specialized sub-committees. The Connected Party Transactions Committee, which comprises four members including one Independent Non-executive Director, one Executive Director, the Chief Financial Officer and the Chief Risk Officer of the Bank, is responsible for reviewing the robustness of the Bank's control framework to ensure proper compliance with all legal and regulatory requirements together with accounting requirements (promulgated in Hong Kong and other jurisdictions) as may be applicable and approving significant connected transactions. The Digitalization Strategy Committee comprises one Independent Non-executive Director, one Non-executive Director and two Executive Directors. The Digitalization Strategy Committee is required, among other things, to advise the Board on the strategy of information technology and to assist the Board in monitoring and evaluating the implementation and execution of the strategy.

SENIOR MANAGEMENT

The biographies of the senior management of the Bank as at the date of this Offering Circular are as follows:

Mr. ZONG Jianxin, *Chief Executive*

Mr. Zong is the Chief Executive of the Bank. See "*Board of Directors*" in this section for Mr. Zong's biography.

Mr. LAU Wai Man, *Deputy Chief Executive*

Mr. Lau is the Deputy Chief Executive of the Bank. See "*Board of Directors*" in this section for Mr. Lau's biography.

Mr. YEE Wing Chi, *Executive Vice President, Chief Financial Officer*

Mr. Yee is the Executive Vice President and has been the Chief Financial Officer of the Bank since December 2022. Mr. Yee obtained a Master Degree of Risk Management Science from The Chinese University of Hong Kong and a Master Degree of Business Administration from The University of Warwick. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst. Mr. Yee has more than 30 years of auditing and financial controllership experience in the financial services industry. Prior to joining the Bank, he held different senior positions with various local and international banks.

Mr. YOUNG Chi Ho, *Executive Vice President, Chief Risk Officer*

Mr. Young is the Executive Vice President and has been the Chief Risk Officer of the Bank since September 2022 and an Alternate Chief Executive of the Bank, Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) and Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since January 2025. Mr Young holds a Master Degree of Science in Economics from The Hong

Kong University of Science and Technology and a Master Degree of Commercial Bank Management from The East China Normal University. He is a Certified Financial Planner^{CM} and Certified Anti-Money Laundering Specialist. He has extensive experience in banking industry for more than 25 years covering wealth management, channel management and product management in frontline business, and credit risk, market risk, operational risk, legal and compliance risk in bank-wide risk management. He worked across Hong Kong and Mainland with vast exposure to risk management and compliance.

Ms. CHUNG Sau Lai Cindy, ***Executive Vice President and Chief Operating Officer***

Ms. Chung is the Executive Vice President and has been the Chief Operating Officer of the Bank since March 2025. Ms. Chung obtained a Master of Science Degree in Finance from the City University of Hong Kong and a Master of Science Degree in Information Systems from The Hong Kong Polytechnic University. She has more than 25 years of experience in project management and operations. Prior to joining the Bank, she held different senior positions with various Chinese and foreign banks.

Ms. LAM Pik Ha Eliza, ***Executive Vice President***

Ms. Lam is the Executive Vice President and has been the Head of Financial Institutions Division since September 2018. Ms. Lam has over 30 years of experience in corporate and institutional banking business and has held different senior positions with various international banks in managing corporate and institutional clients in the Asia Pacific region. Ms. Lam obtained a postgraduate diploma in international marketing of the Society of Business Practitioner (U.K.).

Ms. NG Sau Wai Sylvia, ***Executive Vice President***

Ms. Ng is the Executive Vice President and has been the Head of Personal Banking Division of the Bank since October 2020. Ms. Ng obtained a Bachelor of Social Sciences degree from The University of Hong Kong. She possesses over 20 years of working experience in the financial services industry, and has worked in various Chinese and foreign banks in Hong Kong overseeing retail banking business and marketing.

Mr. WONG Kwok Pun, ***Executive Vice President and Alternate Chief Executive***

Mr. Wong is the Executive Vice President and Head of Treasury and Markets. Mr. Wong has been an Alternate Chief Executive of the Bank, Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) and Yuexiu Financial Holdings Limited (the sole shareholder of the Bank) since January 2025. Mr. Wong holds a Bachelor and a Master Degree in Economics from The University of Hong Kong. He is a Fellow Member of the Association of Chartered Certified Accountants, a Chartered Financial Analyst and a Financial Risk Manager. Mr. Wong has more than 20 years of experience in banking, accounting and finance.

Ms. YU Haibing, ***Executive Vice President***

Ms. Yu is the Executive Vice President and has been the Head of Human Resources Division since December 2024. Ms. Yu holds a Master Degree in Economics from Shandong University and is qualified as a Senior Economist. She has over 25 years of experience in the banking industry and has worked in a number of large commercial banks and investment banks in management roles related to human resources and strategic development.

Ms. CHEUNG Hoi Lam, ***Executive Vice President***

Ms. Cheung is the Executive Vice President and has been appointed the Company Secretary of the Bank since July 2024. Ms. Cheung has 20 years of work experience in corporate secretarial and governance areas of sizable listed companies and financial institutions. Ms. Cheung obtained a Bachelor of Arts degree from The Chinese University of Hong Kong and a Master of Science degree in Professional Accounting and Corporate Governance from the City University of Hong Kong. Ms. Cheung is a Fellow of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, save for the words in italics and, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either: (i) the full text of these terms and conditions together with the relevant provisions of the applicable Pricing Supplement; or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by an amended and restated trust deed dated on or about 12 September 2025 (as may be amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") (and as may be further amended, restated, novated or supplemented) between Chong Hing Bank Limited (the "**Issuer**") and The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes, Certificates, Receipts, Coupons and Talons referred to below. An amended and restated agency agreement dated on or about 12 September 2025 (the "**Agency Agreement**") (and as may be further amended, restated, novated or supplemented) has been entered into in relation to the Notes among the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as initial issuing and paying agent (except as otherwise described below), The Hongkong and Shanghai Banking Corporation Limited as the lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Monetary Authority (the "**CMU**"), and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "Issuing and Paying Agent", the "CMU Lodging and Paying Agent", the "Paying Agents" (which expression shall include the Issuing and Paying Agent, and the CMU Lodging and Paying Agent), the "Registrar", the "Transfer Agents" (which expression shall include the Registrars) and the "Calculation Agent(s)". For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Issuing and Paying Agent shall, unless provided otherwise, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. References in these Conditions to the "**Issuer**" are to the entity named as such in the applicable Pricing Supplement.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest-bearing Notes in bearer form and, where applicable in the case of such Bearer Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Bearer Notes of which the principal is payable in instalments (the "**Receiptholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, these Conditions, (in respect of the holders of Notes) all the provisions of the Trust Deed, the applicable Pricing Supplement, and are deemed to have notice of those provisions applicable to them of (in respect of the holders of Notes) the Agency Agreement. The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note. References to "applicable Pricing Supplement" are to the Pricing Supplement (or relevant provisions thereof) attached to or endorsed on this Note.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects and "**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

1 **Form, Denomination and Title**

(a) **Form and denomination**: The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"), in each case as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the currency (the "**Specified Currency**") and in the specified denomination(s) (the "**Specified Denomination(s)**") shown hereon. Subordinated Notes (as defined in Condition 3(b)) will only be issued in registered certificated form; Subordinated Notes shall not be issued in bearer form.

Unless otherwise permitted by the then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum specified denomination for any series or tranche of Subordinated Notes intending to qualify as Tier 2 capital under the Banking Capital Regulations (as specified in the applicable Pricing Supplement) shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue.

Each Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest Basis and Redemption basis shown thereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Any Bearer Note, the nominal amount of which is redeemable in instalments, is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

(b) **Title**: Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the relevant Registrar (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

*For so long as any of the Notes are represented by a Global Note or a Global Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**") and/or a sub-custodian for the CMU, each person (other than Euroclear or Clearstream or the CMU) who is for the time being shown in the records of Euroclear or*

*Clearstream or the CMU as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream or the CMU as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Certificate and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU in accordance with the CMU Rules at the relevant time and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note. In addition, these Conditions are modified by certain provisions contained in the Global Note or the Global Certificate (as the case may be).*

The Subordinated Notes are not issuable in bearer form.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

References in the Conditions to Coupons, Talons, Couponholders, Receipts and Receiptholders relate to Bearer Notes only.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: Subject to the Agency Agreement and Condition 2(f) and Condition 6, one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require without service charge and subject to payment of any taxes, duties and other governmental charges in respect of such transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar, or by the

Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available (free of charge to the Noteholders and at the Issuer's expense) by the Registrar to any Noteholder following prior written request and proof of holding satisfactory to the Registrar at all reasonable times during normal business hours at the specified office of the Registrar.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

Transfers of interests in any Subordinated Notes that are the subject of a Non-Viability Event Notice issued in accordance with Condition 7 or notice of issue of a Resolution Notice shall not be permitted during any Suspension Period (as defined in Condition 2(f)).

(c) **Exercise of Options or Partial Redemption or Partial Write-off in Respect of Registered Notes**: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of or a partial Write-off of or cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed or Written-off in accordance with Condition 7 or subject to cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice, as the case may be. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(b) or (c) shall be available for delivery within seven business days of receipt of the request for transfer, exercise, redemption or exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange, except for any write-off pursuant to Condition 7(a) in which case any new Certificate to be issued shall be available for delivery as soon as reasonably practicable. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for transfer, exercise, redemption or exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfers Free of Charge**: Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption or partial write-off shall be effected without charge by or on behalf of the Issuer, the Registrar, or the Transfer Agents, but:

(i) upon payment by the relevant Noteholder of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar, or the relevant Transfer Agent may require);

(ii) upon the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and

(iii) the relevant Agent being satisfied that the regulations (as mentioned in Condition 2(b)) concerning transfer of Registered Notes have been complied.

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered:

(i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note;

(ii) after such Noteholder has exercised its put option to require the Issuer to redeem any such Note;

(iii) during the period of 15 days ending on (and including) any date on which payment is due; or

(iv) where the Registered Notes are also Subordinated Notes, during the period commencing on the date of a Non-Viability Event Notice and ending on the effective date of the related Write-off.

*So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is in the name of, and lodged with a sub-custodian for, the Monetary Authority as operator of the CMU, or held on behalf of Euroclear or Clearstream or any other clearing system, no holder may require the transfer of a Note to be registered during the period of five Clearing System Business Days (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the Clearing System Business Day immediately following the date on which the Non-Viability Event Notice has been received by the relevant clearing systems (the "**Suspension Period**"). "**Clearing System Business Day**" means, in respect of Euroclear and/or Clearstream, a weekday (Monday to Friday, inclusive except 25 December and 1 January), and in respect of CMU and/or any other clearing system, a day on which the CMU or such other clearing system is operating and open for business, as the case may be.*

3 Status, and Subordination and Qualification of the Subordinated Notes

(a) **Status of Senior Notes**: The senior notes (being those Notes that specify their status as "Senior Notes" in the applicable Pricing Supplement (the "**Senior Notes**")) and the Receipts and the Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness.

(b) **Status and Qualification of Subordinated Notes**:

(i) *Status*: The subordinated notes (being those Notes that specify their status as "Subordinated Notes" in the applicable Pricing Supplement (the "**Subordinated Notes**")) constitute direct, unsecured and subordinated (pursuant to Condition 3(c)) obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders are subordinated as described below.

(ii) *Qualification*: The applicable Pricing Supplement for any Subordinated Notes shall specify if such Subordinated Notes are intended to qualify as Tier 2 Capital Instruments.

(c) **Subordination of Subordinated Notes**: Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) other than pursuant to a Permitted Reorganisation (as defined below), the rights and claims of the Noteholders to payment of principal and interest on the Subordinated Notes, and any other obligations in respect of the Subordinated Notes, shall rank:

(i) subordinate and junior in right of payment to, and of all claims of all unsubordinated creditors of the Issuer (including its depositors) and all other Non-Preferred Creditors of the Issuer whose claims are stated to rank senior to the Subordinated Notes or rank senior to the Subordinated Notes by operation of law or contract;

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

(iii) senior in right of payment to, and of all claims of:

(A) the holders of other subordinated instruments or other obligations issued, entered into, or guaranteed by the Issuer that is specified in the applicable Pricing Supplement as ranking junior to the Subordinated Notes and any other instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Subordinated Notes by operation of law or contract but senior to the holders of Junior Obligations; and

(B) the holders of Junior Obligations and as may be further specified in the Pricing Supplement,

in each case in the manner provided in the Trust Deed; and in the event of a Winding-Up that requires the Noteholders or the Trustee to provide evidence of their claim to principal or interest under the Subordinated Notes, such claims of the Noteholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole.

(d) **Set-off and Payment Void in respect of Subordinated Notes**: Subject to applicable law, no holder of Subordinated Notes may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes and each holder of the Subordinated Notes shall, by virtue of being the holder of any Subordinated Note be deemed to have waived all such rights of such set-off, counterclaim or retention to the fullest extent permitted by law. In the event that any holder of Subordinated Notes nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Subordinated Notes, other than in accordance with this Condition 3(d), such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the Winding-Up for interest and each holder, by virtue of becoming a holder of any Subordinated Notes, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

(e) **Definitions**: In these Conditions:

"**Authorized Institution**" has the meaning given to that term in the Banking Ordinance (Cap. 155) of Hong Kong (as may be updated, amended or supplemented from time to time);

"**Banking Capital Regulations**" means the Banking (Capital) Rules (Cap. 155L) of Hong Kong or any other banking capital regulations from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong (as may be updated, amended or supplemented from time to time);

"**Group**" means the Issuer and its Subsidiaries;

"**Junior Obligation**" means all classes of the Issuer's share capital (including without limitation any ordinary shares and any preference shares of the Issuer), any Tier 1 Capital Instruments and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Subordinated Notes by operation of law or contract;

"**Monetary Authority**" means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap. 66) of Hong Kong or any successor thereto;

"**Non-Preferred Creditors**" means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up, in right of payment to, and of all claims of, the depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or are expressed to rank by operation of law or contract *pari passu* with, or junior to, the claims of the Noteholders. For this purpose indebtedness shall include all liabilities, whether actual or contingent;

"**Parity Obligation**" means any instrument or other obligation issued or entered into by the Issuer that is specified in the applicable Pricing Supplement as ranking *pari passu* with the Subordinated Notes and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Subordinated Notes by operation of law or contract;

"**Permitted Reorganisation**" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Subordinated Notes;

"**Tier 1 Capital Instruments**" means any instrument issued or entered into by the Issuer that constitutes Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Tier 2 Capital Instruments**" means any instrument issued or entered into by the Issuer that constitutes Tier 2 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution by a competent judicial authority in the place of incorporation of the Issuer for the bankruptcy, winding up, liquidation, or similar proceeding in respect of the Issuer; and

"**Winding-Up Proceedings**" means, with respect to the Issuer, proceedings for the bankruptcy, liquidation, winding-up, or other similar proceeding of the Issuer.

4 **Negative Pledge in respect of Senior Notes only**

(a) **Negative Pledge in respect of Senior Notes only**: So long as any Senior Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Principal Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either:

(i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders; or

(ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of Senior Notes.

(b) **Definitions**: In these Conditions:

"**Principal Subsidiary**" means any Subsidiary of the Issuer:

(i) whose profits before taxation ("**pre-tax profit**") (or consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer, as shown by its latest audited income statement, are at least 5 per cent. of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Issuer and its consolidated Subsidiaries, including the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of associated entities and after adjustments for minority interests; or

(ii) whose gross assets (or consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer, as shown by its latest audited statement of financial position sheet, are at least 5 per cent. of the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated statement of financial position of the Issuer and its Subsidiaries, including the investment of the Issuer and its consolidated Subsidiaries in each subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associate companies and after adjustment for minority interests;

provided that, in relation to paragraphs (i) and (ii) above:

(A) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(B) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, pre-tax profit or gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of *pro forma* consolidated accounts prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Noteholders; and

(C) if at any relevant time in relation to any Subsidiary, no accounts are audited, its gross assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Noteholders; and

(D) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer, or

(iii) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (i) or (ii) above.

A certificate prepared by the directors of the Issuer certifying that, in their opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties. The certificate would, if requested by the holder(s) of, individually or in the aggregate, not less than 5 per cent. of the aggregate nominal amount of the Notes outstanding, be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Issuer as to proper extraction of the figures used by the Issuer in determining the Principal Subsidiaries of the Issuer and mathematical accuracy of the calculation;

"**Relevant Indebtedness**" means any indebtedness having a maturity of more than one year which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

5 Interest and other Calculations

The amount payable in respect of the aggregate nominal amount of Notes represented by a Global Certificate or a Global Note (as the case may be) shall be made in accordance with the methods of calculation provided for in the Conditions and the applicable Pricing Supplement, save that the calculation is made in respect of the total aggregate amount of the Notes represented by a Global Certificate or a Global Note (as the case may be), together with such other sums and additional amounts (if any) as may be payable under the Conditions.

(a) **Interest on Fixed Rate Notes**: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) **Interest on Floating Rate Notes**:

(i) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph (A), "**ISDA Rate**" for an Interest

Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark)

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined where the Reference Rate is not SOFR Benchmark, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(y) If the Relevant Screen Page is not available or if, paragraph (x)(I) above applies and no such offered quotation appears on the Relevant Screen Page or if paragraph (x)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Issuer shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Issuer and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Issuer with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) If paragraph (y) above applies and the Issuer determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Issuer to the Issuer and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR, the Hong Kong interbank market, as the case may be, or, if fewer than two of the Reference Banks provide the Issuer and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Issuer and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR, the Hong Kong interbank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any) in accordance with Condition 5(e), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The "**SOFR Benchmark**" will be determined based on Simple SOFR Average, Compounded Daily SOFR or SOFR Index, as follows (subject in each case to Condition 5(j) as further specified hereon):

(x) If Simple SOFR Average ("**Simple SOFR Average**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be the arithmetic mean of the SOFR reference rates for each day during the period, as calculated by the Calculation Agent, and where, if applicable and as specified hereon, the SOFR reference rate on the SOFR Rate Cut-Off Date shall be used for the days in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Interest Period End Date.

(y) If Compounded Daily SOFR ("**Compounded Daily SOFR**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Interest Accrual Period (where SOFR Lag, SOFR Payment Delay or SOFR Lockout is specified as applicable hereon to determine Compounded Daily SOFR) or the SOFR Observation Period (where SOFR Observation Shift is specified as applicable hereon to determine Compounded Daily SOFR).

Compounded Daily SOFR shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified as applicable hereon:

(I) SOFR Lag:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_{i-xUSBD}\times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_{i\text{-}xUSBD}$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day(i);

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to do, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(II) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period End Date for such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"$\mathbf{d_o}$" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to do, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(III) SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR$_i$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**Interest Payment Date**" shall be the number of Interest Payment Delay Days following each Interest Period End Date; provided that the Interest Payment Date with respect to the final Interest Accrual Period will be the Maturity Date or, if the Issuer elects to redeem the Notes prior to the Maturity Date, the relevant Optional Redemption Date;

"**Interest Payment Delay Days**" means the number of Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d$_o$**" means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to do, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"**n$_i$**", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

For the purposes of calculating Compounded Daily SOFR with respect to the final Interest Accrual Period where SOFR Payment Delay is specified hereon, the SOFR reference rate for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Maturity Date or the relevant Optional Redemption Date, as applicable, shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date.

(IV) SOFR Lockout:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day(i) in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i), except that the SOFR for any U.S. Government Securities Business Day(i) in respect of the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Interest Period End Date for such Interest Accrual Period shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date;

"**d**" means the number of calendar days in the relevant Interest Accrual Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

"**i**" means a series of whole numbers ascending from one to do, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C)(x) and 5(b)(iii)(C)(y):

"**SOFR**" means, in respect of a U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at the SOFR Determination Time;

(ii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the Secured Overnight Financing

Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website; or

(iii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(j) shall apply as specified hereon;

"**SOFR Rate Cut-Off Date**" means the date that is a number of U.S. Government Securities Business Days prior to the Interest Payment Date relating to the relevant Interest Accrual Period, the Maturity Date or the relevant Optional Redemption Date, as applicable, as specified hereon; and

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day.

(z) If SOFR Index ("**SOFR Index**") is specified as applicable hereon, the SOFR Benchmark for each Interest Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**" in respect of a U.S. Government Securities Business Day, means:

:

(a) the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, provided that in the event that the value originally published by the SOFR Administrator at the SOFR Index Determination Time on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Time in relation to such U.S. Government Securities Business Day;

(b) if a SOFR Index does not so appear as specified in (a) above of this definition, then: (i) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the

"SOFR Index" shall be calculated on any Interest Determination Date with respect to an Interest Accrual Period, in accordance with the Compounded Daily SOFR formula described above in Condition 5(b)(ii)(C) (y)(II) "SOFR Observation Shift", and the term "SOFR Observation Shift Days" shall mean two U.S. Government Securities Business Days; or (ii) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(j) shall apply as specified hereon;

"**SOFR Index$_{\mathbf{End}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified hereon prior to the Interest Period End Date for such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

"**SOFR Index$_{\mathbf{Start}}$**" means, in respect of an Interest Accrual Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified hereon prior to the first day of such Interest Accrual Period;

"**SOFR Index Determination Time**" means, in respect of a U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

"**SOFR Observation Period**" means, in respect of an Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period End Date for such Interest Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon; and

"**$\mathbf{d_c}$**" means the number of calendar days in the applicable SOFR Observation Period.

The following defined terms shall have the meanings set out below for purpose of this Condition 5(b)(ii)(C):

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York (currently, being *https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index*), or any successor source;

"**SOFR Benchmark Replacement Date**" means the Benchmark Replacement Date with respect to the then-current Benchmark;

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then-current Benchmark; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)(B)).

(d) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9).

(e) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 5(e)(ii).

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the fifth decimal place (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(f) **Calculations**: The amount of interest payable per calculation amount specified hereon (or, if no such amount is so specified, the Specified Denomination) (the "**Calculation Amount**") in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on each Interest Determination

Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, subsequently notified by the Issuer to such exchange or other relevant authority as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

Where any Interest Payment Date or Interest Period End Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 11, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(g) but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Determination or Calculation by an agent of the Issuer**: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Issuer shall appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5(h), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation such agent pursuant to this Condition 5(h) shall (in the absence of manifest error) be final and binding upon all parties.

(i) **Benchmark Discontinuation (general)**: this Condition 5(i) shall apply to only those Notes for which this Condition 5(i) is specified as "Applicable" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 5(i), no Successor Rate or Alternative Rate (as applicable) will be adopted, and no other amendments to the terms of any Subordinated Notes will be made pursuant to this Condition 5(i), if and to the extent that, in *the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of any of the Subordinated Notes as Tier 2 capital of the Issuer and/or the Group.*

(i) *Independent Adviser*: Other than in the case of a U.S. dollar-denominated Floating Rate Notes where Benchmark Discontinuation (SOFR) is specified as applicable, if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with Condition 5(i)(ii)) and, in either case, an Adjustment Spread (if any, in accordance with Condition 5(i)(iii)) and any Benchmark Amendments (in accordance with Condition 5(i)(iv)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 5(i) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders or the Couponholders for any determination made by it, pursuant to this Condition 5(i).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser fails to determine a Successor Rate or, failing which, an Alternative Rate, in accordance with this Condition 5(i)(i) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. This paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(i)(i).

(ii) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(i)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(i)).

(iii) *Adjustment Spread*: If the Independent Advisor determines that:

(A) an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be); and

(B) the quantum of, or a formula or methodology for determining such Adjustment Spread,

then the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*:

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(i) and the Independent Adviser (in consultation with the Issuer) determines:

(A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and

(B) the terms of the Benchmark Amendments,

then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(i)(v), without any requirement for the consent or approval of Noteholders or Couponholders, the Trustee or the Agents, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 5(i)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including any supplemental trust deed) in any way.

The Trustee and the Issuing and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(i)(iv). Noteholders' or Couponholders' consent shall not be required in connection with effecting of the Successor Rate or the Alternative Rate (as applicable) or such other changes, including the execution of any documents or any steps by the Trustee or the Issuing and Paying Agent (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

In connection with any such variation in accordance with this Condition 5(i)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 5(i)(iv), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Subordinated Notes as Tier 2 Capital Instruments of the Issuer for the purposes of the Banking Capital Regulations.

(v) *Notices*: Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(i) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 17, the Noteholders or the Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming:

(1) that a Benchmark Event has occurred;

(2) the Successor Rate or, as the case may be, the Alternative Rate;

(3) the applicable, Adjustment Spread; and

(4) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(i); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate, Alternative Rate, the Adjustment Spread or the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents, the Noteholders and Couponholders.

(vi) *Survival of Original Reference Rate*: Without prejudice to the obligations of the Issuer under Conditions 5(i)(i), 5(i)(ii), 5(i)(iii) and 5(i)(iv) the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B), as applicable, will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions*: As used in this Condition 5(i):

"**Adjustment Spread**" means either:

(A) a spread (which may be positive, negative or zero); or

(B) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser determines as being customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (if the Independent Adviser determines that no such spread is customarily applied) the Independent Adviser (in consultation with the Issuer) determines, and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 5(i)(ii) as being customarily applied in market usage in the international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 5(i)(iv).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(iii) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued and such discontinuation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(iv) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes and such prohibition is reasonably expected by the Issuer to occur prior to the Maturity Date;

(v) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is (or is deemed by such supervisor to be) no longer representative of its relevant underlying market and such discontinuation is reasonably expected by the Issuer to occur prior to the relevant Optional Redemption Date; or

(vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (i) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (ii) in the case of sub-paragraph (iv) above, on the date of the prohibition of use of the Original Reference Rate and (iii) in the case of sub-paragraph (v) above, on the date with effect from which the Original Reference Rate is no longer (or is deemed by the relevant regulator or supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents.

"**Independent Adviser**" means an independent financial institution of international or national repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(i)(i).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:

   (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates;

   (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable);

   (c) a group of the aforementioned central banks or other supervisory authorities; or

   (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(j) **Benchmark Discontinuation (SOFR)**: this Condition 5(j) shall apply to only those U.S. dollar-denominated Notes for which this Condition 5(j) is specified as "Applicable" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 5(j), no Benchmark Replacement will be adopted, and no other amendments to the terms of any Subordinated Notes will be made pursuant to this Condition 5(j), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of any of the Subordinated Notes as Tier 2 capital of the Issuer and/or the Group.

(i) *Benchmark Replacement*: If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) *Benchmark Replacement Conforming Changes*: In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. The Trustee and the Agents shall, at the direction and expense of the Issuer but subject to receipt by the Trustee and the Agents of a certificate signed by two Authorised Signatories of the Issuer confirming that a Benchmark Event has occurred, be obliged to effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(j), **provided that** the Trustee and the Agents shall not be obliged so to concur if in the opinion of the Trustee or the Agents doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee and the Agents in these Conditions, the Trust Deed or the Agency Agreement (including any supplemental trust deed or supplemental agency agreement) in any way. Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Trustee or any of the Agents (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(iii) *Decisions and Determinations*: Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(j), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (A) will be conclusive and binding absent manifest error, (B) will be made in the sole discretion of the Issuer or its designee, as applicable, and (C) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(iv) *Definitions*: The following defined terms shall have the meanings set out below for purpose of this Condition 5(j):

"**2006 ISDA Definitions**" means, in relation to a Series of Notes, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of such Series) as published by ISDA (copies of which may be obtained from ISDA at www.isda.org);

"**2021 ISDA Definitions**" means, in relation to a Series of Notes, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Notes of such Series, as published by ISDA on its website (www.isda.org);

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified hereon; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "**Benchmark**" means the applicable Benchmark Replacement;

"**Benchmark Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the sum of:

(1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(2) the Benchmark Replacement Adjustment;

(B) the sum of:

(1) the ISDA Fallback Rate; and

(2) the Benchmark Replacement Adjustment; or

(C) the sum of:

(1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(2) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) the Issuer or its designee decides may be appropriate to reflect the adoption of such

Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) in the case of sub-paragraph (A) or (B) of the definition of "**Benchmark Event**", the later of:

(1) the date of the public statement or publication of information referenced therein; and

(2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(B) in the case of sub-paragraph (C) of the definition of "**Benchmark Event**", the date of the public statement or publication of information referenced therein.

If the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" has the meaning given in the relevant Pricing Supplement;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (A) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded Daily SOFR is specified as applicable hereon) or SOFR Index Determination Time (where SOFR Index is specified as applicable hereon), or (B) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(k) **Definitions**: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than Euro or Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;

(ii) in the case of Notes denominated in Euro, a TARGET Settlement Day and a day (other than a Saturday or Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments of Euro in Luxembourg; and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong:

(iv) in the case of a currency and/or one or more Financial Centres, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless:

(x) that day is the last day of February; or

(y) such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless:

(x) that day is the last day of February but not the Maturity Date; or

(y) such number is 31, in which case D_2 will be 30;

(vii) if "**Actual/Actual-ICMA**" is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of:

(x) the number of days in such Determination Period; and

(y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of:

(1) the number of days in such Determination Period; and

(2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of:

(1) the number of days in such Determination Period; and

(2) the number of Determination Periods normally ending in any year

where for the purposes of this "Actual/Actual-ICMA" definition:

"**2006 ISDA Definitions**" means, in relation to a Series of Notes, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of such Series) as published by ISDA (copies of which may be obtained from ISDA at www.isda.org);

"**2021 ISDA Definitions**" means, in relation to a Series of Notes, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Notes of such Series, as published by ISDA on its website (www.isda.org);

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**CNY**" or "**Renminbi**" means the lawful currency of the PRC;

"**Euro**" means the currency of the member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended from time to time;

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended;

"**HKD**" or "**Hong Kong dollars**" means the lawful currency of Hong Kong;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period End Date and each successive period beginning on (and including) an Interest Period End Date and ending on (but excluding) the next succeeding Interest Period End Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified:

(i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong Dollars or Renminbi; or

(ii) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Hong Kong Dollars nor Euro nor Renminbi; or

(iii) the day falling two TARGET Settlement Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Period End Date**" means each Interest Payment Date unless otherwise specified hereon;

"**ISDA Definitions**" has the meaning given in the relevant Pricing Supplement;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means:

(i) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market; and

(ii) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market,

in each case selected by the Issuer or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

"**Sterling**" means the lawful currency of the United Kingdom;

"**T2**" means the real time gross settlement system operated by the Eurosystem or any successor system; and

"**TARGET Settlement Day**" means any day on which T2 is open for the settlement of payments in euro.

(l) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early

Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption**:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless otherwise provided hereon and unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

Any redemption of Subordinated Notes intended to qualify as Tier 2 capital under the Capital Regulations by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(b) **Early Redemption**:

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11 shall be the "**Amortised Face Amount**" (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such

Note as defined in paragraph (B) above, except that such paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation**:

(i) *Withholding Tax in respect of any Notes*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, (the "**Optional Tax Withholding Redemption**") on any Interest Payment Date (if such Note is a Floating Rate Note) or, if so specified thereon, at any time (if such Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 17 and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing at their Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption and any Additional Amounts (as defined in Condition 9) then due or which will become due on or before the date fixed for redemption), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction (as defined in Condition 9) or any political subdivision or any authority thereof or therein having power to tax, or any change in the official application or official interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due and, in the case of Subordinated Notes, no such notice of redemption shall be given prior to the compliance with the requirements in Condition 6(j).

Prior to giving any notice of redemption pursuant to this Condition 6(c)(i), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as conclusive evidence of the satisfaction of the condition precedent set out in paragraph (B) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(ii) *Tax Deductibility in respect of Subordinated Notes only*: Subject to Condition 6(j), the Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, (the "**Subordinated Notes Optional Tax Deductibility Redemption**" and together with the Optional Tax Withholding Redemption, the "**Optional Tax Redemption**") on any Interest Payment Date (if such Subordinated Note is at the relevant time a Floating Rate Note) or at any time (if such Subordinated Note is at the Relevant Time not a Floating Rate Note), on giving not less than 30 but not more than 60 days' notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 17 and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing at, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in accordance with Condition 7, their Early Redemption Amount (as described in Condition 6(b)) together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption or, if the Early Redemption Amount is not specified hereon, at their nominal amount, together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption, if the Issuer satisfies the Trustee immediately before the giving of such notice that, in respect of payments of interest on the Subordinated Notes, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong:

(A) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax (or any taxing authority of any taxing jurisdiction in which the Issuer is a tax resident) or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Subordinated Notes; and

(B) the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

provided that, where the Issuer has or will become obliged to pay Additional Amounts, no such notice of redemption shall be given earlier than (a) if such Subordinated Note is a Floating Rate Note, 60 days, or (b) if such Subordinated Note is not a Floating Rate Note, 90 days, in each case, prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Subordinated Notes then due.

Prior to giving any notice of redemption pursuant to this Condition 6(c)(ii), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment; and

(y) a copy of the written consent of the Monetary Authority as referred to in Condition 6(j),

and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as conclusive evidence of the satisfaction of the condition precedent set out above, in which event it shall be conclusive and binding on Noteholders.

Any redemption of Subordinated Notes intended to qualify as Tier 2 capital under the Capital Regulations by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(d) **Redemption at the option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 45 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) in accordance with Condition 17 and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing, redeem all or, if so provided, some of the Notes on the date(s) specified hereon (the "**Optional Redemption Date**") provided that, in the case of Subordinated Notes, no such notice of redemption shall be given prior to the compliance with Condition 6(j). Any such redemption of Notes shall be at the Optional Redemption Amount specified hereon together with interest accrued to but excluding the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption of Notes, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

Any redemption of Subordinated Notes intended to qualify as Tier 2 capital under the Capital Regulations by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(e) **Redemption at the option of holders of Senior Notes**: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Senior Note, upon the holder of such Senior Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to but excluding the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Senior Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Senior Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any

Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No such Senior Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Issuer.

Unless otherwise provided in these Conditions or the applicable Pricing Supplement, the Subordinated Notes are not redeemable prior to the Maturity Date at the option of the Noteholders.

(f) **Redemption for Regulatory Reasons in respect of Subordinated Notes**: Following the occurrence of a Capital Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 17 and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing, redeem in accordance with these Conditions on any Interest Payment Date (if this Subordinated Note is at the relevant time a Floating Rate Note) or at any time (if this Subordinated Note is at the relevant time not a Floating Rate Note) all, but not some only, of the relevant Subordinated Notes, at, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their nominal amount together with interest accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and provided that, in the case of Subordinated Notes, no such notice of redemption shall be given prior to the compliance with Condition 6(j).

For the purposes of this Condition 6(f), a "**Capital Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(f), the Subordinated Notes, after having qualified as such, will no longer qualify (in whole but not in part) as Tier 2 Capital (or equivalent) of the Issuer, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Capital Regulations, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that a Capital Event has occurred; and

(y) a copy of the written consent of the Monetary Authority,

and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Noteholders. Upon expiry of such notice, the Issuer shall redeem the Subordinated Notes in accordance with this Condition 6(f).

Any redemption of Subordinated Notes intended to qualify as Tier 2 capital under the Capital Regulations by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(g) **Purchases**: The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price in accordance with all relevant laws and regulations and, for so long as the Notes are listed, the requirements of the relevant stock exchange and provided that, in the case of Subordinated Notes, no such purchase shall be made prior to the compliance with Condition 6(j). The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating the quorums at meetings of Noteholders or the purposes of Condition 12(a). The Issuer or any such Subsidiary may, at its option, retain such purchased Notes for its own account and/or resell or cancel or otherwise deal with them at its discretion.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged. Any Subordinated Note that is Written-off in full in accordance with Condition 7 shall be automatically cancelled.

(i) **No Obligation to Monitor**: In the case of Notes, the Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to the Noteholders, the Receiptholders or the Couponholders for any loss arising from any failure by it to do so. Unless and until the Trustee has notice in writing of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

(j) **Conditions for Redemption, Purchase of Subordinated Notes**: Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Subordinated Notes (other than pursuant to Conditions 7(a) or 11) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Subordinated Notes unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Capital Regulations, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. This provision shall not apply to the Issuer or any of its Subsidiaries holding any Subordinated Notes in a purely nominee or custodian capacity.

7 Non-Viability Loss Absorption and Hong Kong Resolution Authority Power in respect of Subordinated Notes

The ability to operationally effect any Write-off of any Subordinated Notes or any cancellation, modification, conversion or change in form as a result of the exercise of the Monetary Authority's powers under this Condition 7 with respect to the clearing and/or settlement of any Subordinated Notes in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off or such cancellation, modification, conversion or change in form in the relevant clearing system(s). However, (i) any Write-off of any Subordinated Notes under Condition 7(a) will be effective upon the date that the Issuer specifies in the Non-Viability Event Notice and (ii) the exercise of the Hong Kong Resolution Authority Power under Condition 7(b) will be effective upon the date specified in the Resolution Notice (or as may otherwise be notified in writing to Subordinated Noteholders, the Trustee and Agents by the Issuer) notwithstanding any inability to operationally effect any such Write-off or any cancellation, modification, conversion or change in form as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 in the relevant clearing system(s).

The Trust Deed and Agency Agreement may contain certain protections and disclaimers as applicable to the Trustee and Agents in relation to this Condition 7. Each Noteholder shall be deemed to have authorised, directed and requested the Trustee, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Write-off following the occurrence of the Non-Viability Event and/or the exercise of any Hong Kong Resolution Authority Power.

(a) **Non-Viability Loss Absorption upon a Non-Viability Event in respect of Subordinated Notes**:

(i) If "**Write-off**" is specified as being applicable for the Loss Absorption Option in the applicable Pricing Supplement for any Subordinated Notes and a Non-Viability Event occurs and is continuing, the Issuer shall, upon or prior to the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Trustee or the holders of any Subordinated Notes) reduce the then outstanding principal amount of, and cancel any accrued but unpaid interest in respect of, each Subordinated Note (in each case, in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Subordinated Note (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the "**Write-off**", and "**Written-off**" shall be construed accordingly).

(ii) Concurrently with the giving of the Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that:

(A) a similar notice be given in respect of other Subordinated Capital Instruments in accordance with their terms; and

(B) concurrently and rateably with the Write-off of the Subordinated Notes, the aggregate principal amount of such other Parity Capital Instruments is subject to a Write-off on a *pro rata* basis with the Subordinated Notes.

(iii) Any Write-off pursuant to this provision will not constitute a Default under the Subordinated Notes. Any failure or delay in giving a Non-Viability Event Notice in respect of the Subordinated Notes or a similar notice in respect of other Subordinated Capital Instruments will not render the Write-off invalid or affect the Write-off in any respect.

(iv) Any Subordinated Note may be subject to one or more Write-offs in part (as the case may be), except where such Subordinated Note has been Written-off in its entirety. In the case of Write-off in part, a new Certificate shall be issued thereafter to each Noteholders in respect of the balance of the holding of Subordinated notes not Written-off.

(v) Once the outstanding principal amount of, and any accrued but unpaid interest under, a Subordinated Note has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Noteholder may exercise, claim or plead any right to any amount that has been Written-off, and each Noteholder shall, by virtue of its holding of any Subordinated Notes, be deemed to have waived all such rights to such amount that has been Written-off.

(vi) Any reference in these Conditions to principal in respect of the Subordinated Notes shall refer to the principal amount of the Subordinated Note(s), reduced by any applicable Write-off(s).

(vii) *Definitions*: In these Conditions:

"**Hong Kong Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in Hong Kong;

"**Non-Viability Event**" means the earlier of:

(A) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or

(B) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable;

"**Non-Viability Event Notice**" means the notice, which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Noteholders, in accordance with Condition 17, and to the Trustee and the Paying Agents in writing, and which shall state:

(A) in reasonable detail the nature of the relevant Non-Viability Event; and

(B) the Non-Viability Event Write-off Amount for:

(1) each Subordinated Note; and

(2) each other Subordinated Capital Instrument in accordance with its terms;

"**Non-Viability Event Write-off Amount**" means the amount of interest and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue, where:

(A) the full amount of the Subordinated Notes will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue; and

(B) in the case of an event falling within paragraph (B) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support.

Further, the Non-Viability Event Write-off Amount in respect of each Subordinated Note will be calculated based on a percentage of the principal amount of that Subordinated Note;

"**Parity Capital Instrument**" means any Parity Obligation and as may be further specified in the applicable Pricing Supplement which contains provisions relating to a write-down or conversion into ordinary shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

"**Subordinated Capital Instrument**" means any Junior Obligation or Parity Obligation and as may be further specified in the applicable Pricing Supplement which contains provisions relating to a write-down or conversion into ordinary shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

(b) **Hong Kong Resolution Authority Power in respect of Subordinated Notes**:

(i) Notwithstanding any other term of the Subordinated Notes, including without limitation Condition 7(a), or any other agreement or arrangement, each holder of Subordinated Notes and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Subordinated Notes being written off, cancelled, converted or modified, or to having the form of the Subordinated Notes changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(A) the reduction or cancellation of all or a part of the outstanding principal amount of, or interest on, the Subordinated Notes;

(B) the conversion of all or a part of the outstanding principal amount of, or interest on, the Subordinated Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Subordinated Notes; and

(C) the amendment or alteration of the maturity of the Subordinated Notes or amendment or alteration of the amount of interest payable on the Subordinated Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

(ii) With respect to (A), (B) and (C) above of Condition 7(b)(i), references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the holders of Subordinated Notes and the Trustee under the Subordinated Notes and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

(iii) No repayment of the outstanding principal amount of the Subordinated Notes or payment of interest on the Subordinated Notes shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in respect of such Subordinated Notes unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

(iv) Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Subordinated Notes, the Issuer shall provide a written notice regarding such exercise of the Hong Kong Resolution Authority Power (a "**Resolution Notice**") to the holders of Subordinated Notes in accordance with Condition 17 and to the Trustee in writing not more than two Hong Kong Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power.

(v) Neither the reduction or cancellation, in part or in full, of the outstanding principal amount of, or interest on the Subordinated Notes, the conversion thereof into another share, security or other obligation of the Issuer or another person, or any other amendment or alteration of these Conditions or any other modification or change in form of the Subordinated Notes as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Notes shall constitute a Default under Condition 11.

(vi) *Definitions*: In this Condition 7(b):

"**Financial Institutions (Resolution) Ordinance**" means the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong, as amended or superseded from time to time;

"**Hong Kong Resolution Authority Power**" means any power which may exist from time to time under the Financial Institutions (Resolution) Ordinance relating to the financial institutions, including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the Issuer or other members of the Group (including powers under Part 4 and Part 5 of the Financial Institutions (Resolution) Ordinance) or any other laws, regulations, rules or requirements relating thereto, as the same may be amended from time to time (whether pursuant to the Financial Institutions (Resolution) Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person; and

"**relevant Hong Kong Resolution Authority**" means any authority with the ability to exercise a Hong Kong Resolution Authority Power in relation to the Issuer from time to time.

Please see the risk factor entitled "The resolution regime in Hong Kong may override the contractual terms of the Instruments" for further information.

8 Payments and Talons

(a) **Bearer Notes not held in the CMU**: Payments of principal and interest in respect of Bearer Notes not held in the CMU shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relevant Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(g)(vi) or Coupons (in the case of interest, save as specified in Condition 8(g)(ii)), as the case may be:

(i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Renminbi, by transfer to a relevant account maintained by or on behalf of the Noteholder. If a holder does not maintain a relevant account in respect of a payment to be made under the Notes, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that holder by another means, provided that the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(a):

"**Bank**" means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the T2.

"**relevant account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

(b) **Registered Notes not held in the CMU**:

(i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business:

(A) in the case of a currency other than Renminbi, on the 15th day before the due date for payment thereof; and

(B) in the case of Notes denominated in Renminbi, on the fifth business day before the due date for payment (the "**Record Date**").

(iii) Payments of interest on each Registered Note shall be made:

(A) in the case of a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a bank; and

(B) in the case of Renminbi, by transfer to the registered account of the Noteholder. If a holder does not maintain a registered account in respect of a payment to be made under the Notes, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that holder by another means, provided that the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(b):

"**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

(c) **Registered Notes held in the CMU**: Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

For so long as any of the Notes that are cleared through the CMU are represented by a Global Note or a Global Certificate, payments of interest or principal will be made to the CMU for their distribution to the persons for whose account a relevant interest in that Global Note or, as the case may be, that Global Certificate is credited as being held by the operator of the CMU at the relevant time. Such payment will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the interbank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

(d) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(e) **Payments subject to fiscal laws**: Payments will be subject in all cases to:

(i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of this Condition 8, in the place of payment; and

(ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of this Condition 8) any law implementing an intergovernmental approach thereto.

*For so long as the Global Note or the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Notes will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(f) **Appointment of Agents**: The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents (if applicable), the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents (if applicable), the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time, with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain:

(i) an Issuing and Paying Agent;

(ii) a Registrar in relation to Registered Notes;

(iii) a Transfer Agent in relation to Registered Notes;

(iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU;

(v) one or more Calculation Agent(s) where the Conditions so require; and

(vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (d) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(g) **Unmatured Coupons and Receipts and unexchanged Talons**:

(i) Unless the Notes provide that the relevant Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(h) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).

(i) **Non-Business Days**: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such other jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Settlement Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

9 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong (the "**Relevant Taxing Jurisdiction**") or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the Receiptholders, Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt, Talon or Coupon by reason of his having some connection with the Relevant Taxing Jurisdiction other than the holding or ownership of the Note, Receipt, Talon or Coupon or receiving income therefrom, or the enforcement thereof; or

(b) **Presentation more than 30 days after the Relevant Date**: where presentation is required or has occurred, presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on or before the 30th such day.

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid on the Notes by, or on behalf of, the Issuer in respect of the Notes, the Receipts and the Coupons will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt, Talon or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relevant Certificate), Receipt, Talon or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to: (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it; and (iii) "**principal**" and/or "**interest**" shall be deemed to include any Additional Amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

10 **Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and will become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 **Events of Default and Default**

(a) **Senior Notes**: If any of the following events ("**Events of Default**") occurs, in the case of Senior Notes, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in nominal amount of the Senior Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction in its sole discretion), give notice to the Issuer that the Senior Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest to the date of redemption:

(i) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Senior Notes; or

(ii) *Breach of Other Obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Senior Notes, the Trust Deed, which default has not been remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(iii) *Cross-acceleration*:

(A) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or

(B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period; or

(C) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (C) have occurred equals or exceeds U.S.$20,000,000 or its equivalent (as reasonably determined by the Trustee); or

(iv) *Winding-Up of and Cessation of Business*: an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Issuer or any Principal Subsidiary, or the Issuer or any Principal Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except:

(A) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation the terms of which shall have previously been approved by an Extraordinary Resolution of the Noteholders; or

(B) by way of a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets are transferred to or otherwise vested in the Issuer or any other Principal Subsidiary; or

(v) *Insolvency*: the Issuer or any Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(vi) *Security enforced*:

(A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to, in the case of the Issuer, the whole or any substantial part of its undertaking or assets or, in the case of a Subsidiary, the whole or substantially all of its undertaking or assets or an encumbrancer takes possession of, in the case of the Issuer, the whole or any substantial part of its undertaking or assets or, in the case of a Principal Subsidiary, the whole or substantially all of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against, in the case of the Issuer, the whole or any substantial part of its undertakings or assets or, in the case of a Subsidiary, the whole or substantially all of its undertaking or assets; and

(B) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 60 days; or

(vii) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of, in the case of the Issuer, all or a substantial part of its assets or, in the case of a Principal Subsidiary, all or substantially all of its assets; or

(viii) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior Notes; or

(ix) *Consent and authorisations*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order:

(A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes;

(B) to ensure that those obligations are legally binding and enforceable; and

(C) to make the Senior Notes admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(x) *Analogous events*: any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (iv) to (ix) above,

but no write-off, cancellation, conversion, modification, or the changing of form, in the exercise of any Hong Kong Resolution Authority Power, of or in relation to, any Tier 1 Capital Instrument or Tier 2 Capital Instrument shall constitute an Event of Default.

(b) **Subordinated Notes**: In the case of the Subordinated Notes:

(i) Default and Winding-Up Proceedings:

(A) *Default*: If default is made in the payment of any amount of principal or interest in respect of the Subordinated Notes on the due date for payment thereof and such failure continues for a period of seven days in the case of principal or 14 days in the case of interest (each, a "**Default**") then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Subordinated Notes or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute a Winding-Up Proceeding.

(B) *Winding-up*: If a Winding-Up has occurred (whether or not a Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Subordinated Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Subordinated Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of actual payment, subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 7 and subject to the subordination provision in Condition 3, without further action or formality.

(ii) *Enforcement, Remedies and Rights of Trustee and Holders*:

(A) *Enforcement*: Without prejudice to Condition 11(b)(i), the Trustee may subject as provided below, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Subordinated Notes binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or interest in respect of the Subordinated Notes), provided that the Issuer shall not as a consequence of such steps, actions or proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Subordinated Notes sooner than the same would otherwise have been payable by it.

(B) *Trustee Rights*: The Trustee shall not be bound to take action as referred to in Conditions 11(b)(i) and 11(b)(ii) or any other action under these Conditions or the Trust Deed unless:

(1) it shall have been so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Subordinated Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders; and

(2) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(C) *Remedies*: Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Conditions 11(b)(i) and 11(b)(ii) above or submitting a claim in the Winding-Up will be available to the Trustee or the Noteholders.

(D) *Rights of Holders*: No Noteholder shall be entitled either to institute proceedings for the Winding-Up or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Noteholder may, on giving an indemnity and/or security and/or pre-funding satisfactory to the Trustee in its discretion, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

12 Meetings of Noteholders, Modification and Waiver

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provision of the Trust Deed and the Agency Agreement. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing to do so by Noteholders holding not less than 10 per cent., in nominal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes;

(ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes;

(iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes (except as a result of any modification contemplated in Condition 5(i));

(iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum;

(v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;

(vi) to vary the currency or currencies of payment or denomination of the Notes;

(vii) to amend or modify the subordination or loss absorption provisions in the Trust Deed or to modify Condition 3 or Condition 7 in respect of the Subordinated Notes;

(viii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply; or

(ix) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than 66 2/3 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders and Receiptholders.

The Trust Deed provides that a resolution:

(A) in writing signed by or on behalf of the holders of not less than 90 per cent., in aggregate nominal amount of the Notes outstanding and who are entitled to receive notice of a meeting of the Noteholders pursuant to the Trust Deed; or

(B) passed by Electronic Consent (as defined in the Trust Deed),

shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the applicable Pricing Supplement in relation to such Series.

(b) **Modification and waiver**: The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to:

(i) any modification of any of the provisions of the Trust Deed, the Agency Agreement and the Notes which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law or as required by the CMU and/or Euroclear and/or Clearstream; and

(ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed the Agency Agreement or the Notes that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

Notwithstanding any other provision of these Conditions or the Trust Deed and the Agency Agreement, no modification to any Condition or any provision of the Trust Deed may be made without the prior approval of the Monetary Authority, to the extent that such modification changes or otherwise affects the eligibility of the Subordinated Notes as Tier 2 Capital Instruments. Any such modification, authorisation or waiver shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, such waiver or authorisation shall be notified by the Issuer to the Noteholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or any holding company of the Issuer or any other subsidiary of any such holding company or their respective successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Noteholders, the Receiptholders or the Couponholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders and the Trustee, acting for and on behalf of Noteholders, shall not be entitled to require, nor shall any Noteholder, Receiptholders or Couponholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders.

13 Enforcement in respect of Senior Notes

In the case of Senior Notes, at any time after the Senior Notes become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or such actions and/or institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Senior Notes, the Receipts and the Coupons, but it need not take any such proceedings unless:

(a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in nominal amount of the Senior Notes outstanding; and

(b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder in respect of Senior Notes may proceed directly against the Issuer unless the Trustee, having become bound so to proceed (in accordance with the terms of the Trust Deed and the Conditions), fails to do so within a reasonable time and such failure is continuing, in which case such Noteholder, Receiptholder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may accept and rely without liability to Noteholders, Receiptholders, Couponholders or any other person on a report, confirmation or certificate or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may conclusively (without liability) accept and shall be entitled to rely on such report, confirmation, certificate, advice or opinion, in which event and such report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Trustee, the Noteholders, the Receiptholders and the Couponholders.

Whenever the Trustee is required or entitled by these terms of the Trust Deed, the Agency Agreement or the Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Noteholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Noteholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Noteholders or in the event that no direction is given to the Trustee by the Noteholders. None of the Trustee or any Agent shall be liable to any Noteholder, the Issuer or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of Noteholders given by holders of the requisite principal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default, Potential Event of Default (as defined in the Trust Deed) has occurred or may occur or to monitor compliance by the Issuer with the provisions of the Trust Deed, the Agency Agreement and/or these Conditions.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and its Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Trustee in respect thereof.

15 **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) or talons and otherwise as the Issuer and/or Agent may require in their sole discretion. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

16 **Further Issues**

The Issuer may from time to time without the consent of the Noteholders, the Couponholders or the Receiptholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 16 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17 **Notices**

(a) Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday, Sunday or public holiday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made, as provided above.

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Noteholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions; or the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Issue Position Report issued by the Monetary Authority on the business day preceding the date of despatch of such notice.

(b) Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 17.

(c) A Non-Viability Event Notice or a Resolution Notice to the holders of the relevant Subordinated Notes shall be deemed to have been validly given on the date on which such notice is published in a daily newspaper of general circulation in Asia or, so long as the Subordinated Notes are listed on any stock exchange, published on the website of such stock exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

18 **Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (the "**Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only discharge the Issuer to the extent of the Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Currency amount is less than the Currency amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify the recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient, on an after-tax basis, against the cost of making any such purchase. This indemnity constitutes a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

19 Contracts (Rights of Third Parties) Ordinance

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Ordinance except and to the extent (if any) that the Notes expressly provide for such Ordinance to apply to any of their terms.

20 Governing Law and Jurisdiction

(a) **Governing Law**: The Trust Deed, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, Hong Kong law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

TERMS AND CONDITIONS OF THE PERPETUAL CAPITAL SECURITIES

The following is the text of the terms and conditions that, save for the words in italics and, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Pricing Supplement, shall be applicable to the Perpetual Capital Securities in definitive form (if any) issued in exchange for the Global Certificate(s) representing each Series. Either: (i) the full text of these terms and conditions together with the relevant provisions of the applicable Pricing Supplement; or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Certificates relating to such Perpetual Capital Securities. References in the Conditions to "Perpetual Capital Securities" are to the Perpetual Capital Securities of one Series only, not to all Perpetual Capital Securities that may be issued under the Programme.

The Perpetual Capital Securities are constituted by an amended and restated trust deed dated on or about 12 September 2025 (as may be amended or supplemented as at the date of issue of the Perpetual Capital Securities (the "**Issue Date**"), the "**Trust Deed**") (and as may be further amended, restated, novated or supplemented) between Chong Hing Bank Limited (the "**Issuer**") and The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Securityholders (as defined below).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Perpetual Capital Securities and Certificates referred to below. An amended and restated agency agreement dated on or about 12 September 2025 (the "**Agency Agreement**") (and as may be further amended, restated, novated or supplemented) has been entered into in relation to the Perpetual Capital Securities among the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as initial issuing and paying agent (except as otherwise described below), The Hongkong and Shanghai Banking Corporation Limited as the lodging and paying agent for Perpetual Capital Securities to be held in the Central Moneymarkets Unit Service operated by the Monetary Authority (the "**CMU**"), and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrars) and the "**Calculation Agent(s)**". For the purposes of these Conditions, all references (other than in relation to the determination of Distribution and other amounts payable in respect of the Perpetual Capital Securities) to the Issuing and Paying Agent shall, unless provided otherwise, with respect to a Series of Perpetual Capital Securities to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. References in these Conditions to the "**Issuer**" are to the entity named as such in the applicable Pricing Supplement.

The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, these Conditions, (in respect of the holders of Perpetual Capital Securities) all the provisions of the Trust Deed, the applicable Pricing Supplement, and are deemed to have notice of those provisions applicable to them of (in respect of the holders of Perpetual Capital Securities) the Agency Agreement. The Pricing Supplement for this Perpetual Capital Security (or the relevant provisions thereof) is attached to or endorsed on this Perpetual Capital Security. References to "**applicable Pricing Supplement**" are to the Pricing Supplement (or relevant provisions thereof) attached to or endorsed on this Perpetual Capital Security.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be.

As used in these Conditions, "**Tranche**" means Perpetual Capital Securities which are identical in all respects and "**Series**" means a series of Perpetual Capital Securities comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of Distribution and their issue price) have identical terms on issue and are expressed to have the same series number.

1. **Form, Denomination and Title**

(a) **Form and denomination**: The Perpetual Capital Securities are issued in registered form only ("**Registered Perpetual Capital Securities**"), as specified in the applicable Pricing Supplement, in the currency (the "**Specified Currency**") and in the specified denomination(s) (the "**Specified Denomination(s)**") shown hereon.

Unless otherwise permitted by the then current laws and regulations, Perpetual Capital Securities which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum specified denomination for any series or tranche of Perpetual Capital Securities intending to qualify as Additional Tier 1 capital under the Banking Capital Regulations (as specified in the applicable Pricing Supplement) shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue.

Each Perpetual Capital Security may be a Fixed Rate Perpetual Capital Security, a Floating Rate Perpetual Capital Security, a combination of any of the foregoing or any other kind of Perpetual Capital Security, depending upon the Distribution Basis and Redemption basis shown thereon.

Perpetual Capital Securities are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Perpetual Capital Securities by the same Securityholder.

(b) **Title**: Title to the Perpetual Capital Securities shall pass by registration in the register that the Issuer shall procure to be kept by the relevant Registrar (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Perpetual Capital Security shall be deemed to be and shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

The Conditions are modified by certain provisions contained in the Global Certificate. The Perpetual Capital Securities are not issuable in bearer form.

In these Conditions, "**Securityholder**" means the person in whose name a Perpetual Capital Security is registered, and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Perpetual Capital Securities.

2. **Transfers of Perpetual Capital Securities**

(a) **Transfer of Perpetual Capital Securities**: Subject to the Agency Agreement and Condition 2(e) and Condition 7, one or more Perpetual Capital Securities may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Perpetual Capital Security(ies) to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require without service charge and subject to payment of any taxes, duties and other governmental charges in respect of such transfer. In the case of a transfer of part only of a holding of Perpetual Capital Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Perpetual Capital Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Perpetual Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available (free of charge to the Securityholders and at the Issuer's expense) by the Registrar to any Securityholder following prior written request and proof of holding satisfactory to the Registrar at all reasonable times during normal business hours at the specified office of the Registrar.

Transfers of interests in the Perpetual Capital Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

Transfers of interests in any Perpetual Capital Securities that are the subject of a Non-Viability Event Notice issued in accordance with Condition 7 or notice of issue of a Resolution Notice shall not be permitted during any Suspension Period (as defined in Condition 2(e)).

(b) **Exercise of Options or Partial Redemption or Partial Write-off in Respect of Perpetual Capital Securities**: In the case of an exercise of an Issuer's option in respect of, or a partial redemption of or a partial Write-off of or cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice of, a holding of Perpetual Capital Securities represented by a single Certificate, a new Certificate shall be issued to the Securityholder to reflect the exercise of such option or in respect of the balance of the holding not redeemed or Written-off in accordance with Condition 7 or subject to cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice, as the case may be. In the case of a partial exercise of an option resulting in Perpetual Capital Securities of the same holding having different terms, separate Certificates shall be issued in respect of those Perpetual Capital Securities of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any other Transfer Agent. In the case of a transfer of Perpetual Capital Securities to a person who is already a holder of Perpetual Capital Securities, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) or (b) shall be available for delivery within seven business days of receipt of the request for transfer, exercise, redemption or exchange, form of transfer and surrender of the Certificate for exchange, except for any write-off pursuant to Condition 7(a) in which case any new Certificate to be issued shall be available for delivery as soon as reasonably practicable. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for transfer, exercise, redemption or exchange, form of transfer or Certificate shall have been made or, at the option of the Securityholder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Securityholder entitled to the new Certificate to such address as may be so specified, unless such Securityholder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

In the case of an exercise of the Issuer's option in respect of, or a partial Write-off of (as the case may be), Perpetual Capital Securities, and where a holding of Perpetual Capital Securities is represented by a single Certificate, a new Certificate shall be issued to the relevant Securityholder to reflect the exercise of such option, or such partial Write-off, or in respect of the balance of the holding not redeemed or Written-off (as the case may be). New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or the Transfer Agent.

(d) **Transfers Free of Charge**: Transfers of Perpetual Capital Securities and Certificates on registration, transfer, exercise of an option or partial redemption or partial write-off shall be effected without charge by or on behalf of the Issuer, the Registrar, or the Transfer Agents, but:

(i) upon payment by the relevant Securityholder of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar, or the relevant Transfer Agent may require);

(ii) upon the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and

(iii) the relevant Agent being satisfied that the regulations (as mentioned in Condition 2(a)) concerning transfer of Perpetual Capital Securities have been complied.

(e) **Closed Periods**: No Securityholder may require the transfer of a Perpetual Capital Security to be registered:

(i) during the period of 15 days ending on the due date for redemption of that Perpetual Capital Security;

(ii) during the period of 15 days ending on (and including) any date on which payment is due; or

(iii) during the period commencing on the date of a Non-Viability Event Notice and ending on the effective date of the related Write-off.

*So long as any Perpetual Capital Securities are represented by a Global Certificate and such Global Certificate is in the name of, and lodged with a sub-custodian for, the Monetary Authority as operator of the Central Moneymarkets Unit Service (the "**CMU**"), or held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**") or any other clearing system, no Securityholder may require the transfer of a Perpetual Capital Security to be registered during the period of five Clearing System Business Days (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the Clearing System Business Day immediately following the date on which the Non-Viability Event Notice has been received by the relevant clearing systems (the "**Suspension Period**"). "**Clearing System Business Day**" means, in respect of Euroclear and/or Clearstream, a weekday (Monday to*

Friday, inclusive except 25 December and 1 January), and in respect of CMU and/or any other clearing system, a day on which the CMU or such other clearing system is operating and open for business, as the case may be.

3. **Status, Subordination and Qualification of the Perpetual Capital Securities**

(a) **Status and Qualification of Perpetual Capital Securities**:

(i) *Status*: The perpetual capital securities (being any Perpetual Capital Securities specified as such in the applicable Pricing Supplement (the "**Perpetual Capital Securities**")) constitute direct, unsecured and subordinated (pursuant to Condition 3(b)) obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated as described below.

(ii) *Qualification*: The applicable Pricing Supplement for any Perpetual Capital Securities shall specify if such Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital Instruments.

(b) **Subordination of Perpetual Capital Securities**: Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) other than pursuant to a Permitted Reorganisation (as defined below), the rights and claims of the Securityholders to payment of principal and Distributions on the Perpetual Capital Securities, and any other obligations in respect of the Perpetual Capital Securities, shall rank:

(i) subordinate and junior in right of payment to, and of all claims of:

(A) all unsubordinated creditors of the Issuer (including its depositors);

(B) any holders of Tier 2 Capital Instruments of the Issuer; and

(C) the holders of other subordinated instruments or other obligations issued, entered into, or guaranteed by the Issuer, and any other instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank senior to the Perpetual Capital Securities by operation of law or contract;

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

(iii) senior in right of payment to, and of all claims of the holders of Junior Obligations and as may be further specified in the applicable Pricing Supplement,

and, to the extent that such Securityholders did not receive payment in full of such principal of and Distribution on such Perpetual Capital Securities, such unpaid amounts shall remain payable in full; **provided that** payment of such unpaid amounts shall be subject to the provisions under this Condition 3 and Condition 11.

In the event of a Winding-Up that requires the Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Perpetual Capital Securities, such claims of the Securityholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event (as defined below) or an Optional Distribution Cancellation Event.

(c) **Set-off and Payment Void in respect of Perpetual Capital Securities**: Subject to applicable law, no holder of Perpetual Capital Securities may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Perpetual Capital Securities and each Securityholder of the Perpetual Capital Securities shall, by virtue of being the Securityholder of any Perpetual Capital Securities be deemed to have waived all such rights of such set-off, counterclaim or retention to the fullest extent permitted by law. In the event that any holder of Perpetual Capital Securities nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Perpetual Capital Securities, other than in accordance with this Condition 3(c), such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the winding-up of the Issuer for Distribution and each Securityholder, by virtue of becoming a Securityholder of any Perpetual Capital Securities, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

(d) **Definitions**:

In these Conditions:

"**Additional Tier 1 Capital Instruments**" means any instrument issued or entered into by the Issuer that constitutes Additional Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Authorized Institution**" has the meaning given to that term in the Banking Ordinance (Cap. 155) of Hong Kong (as may be updated, amended or supplemented from time to time);

"**Banking Capital Regulations**" means the Banking (Capital) Rules (Cap. 155L) of Hong Kong or any other banking capital regulations from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong (as may be updated, amended or supplemented from time to time);

"**Junior Obligation**" means all classes of the Issuer's Shares, any Tier 1 Capital Instruments which are not Additional Tier 1 Capital Instruments and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Perpetual Capital Securities by operation of law or contract;

"**Monetary Authority**" means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap. 66) of Hong Kong or any successor thereto;

"**Parity Obligation**" means any Additional Tier 1 Capital Instrument, and any other instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Perpetual Capital Securities by operation of law or contract;

"**Permitted Reorganisation**" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Perpetual Capital Securities;

"**Tier 1 Capital Instruments**" means any instrument issued or entered into by the Issuer that constitutes Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Tier 2 Capital Instruments**" means any instrument issued or entered into by the Issuer that constitutes Tier 2 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Shares**" means the ordinary share capital of the Issuer;

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution by a competent judicial authority in the place of incorporation of the Issuer for the bankruptcy, winding up, liquidation, or similar proceeding in respect of the Issuer; and

"**Winding-Up Proceedings**" means, with respect to the Issuer, proceedings for the bankruptcy, liquidation, winding-up, or other similar proceeding of the Issuer.

4. **Distribution and other Calculations**

The amount payable in respect of the aggregate nominal amount of Perpetual Capital Securities represented by a Global Certificate in accordance with the methods of calculation provided for in the Conditions and the applicable Pricing Supplement, save that the calculation is made in respect of the total aggregate amount of the Perpetual Capital Securities represented by a Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions.

(a) **Distribution on Fixed Rate Perpetual Capital Securities**: Subject to Condition 5, each Fixed Rate Perpetual Capital Security confers a right to receive distribution (each a "**Distribution**") on its outstanding nominal amount from and including the Distribution Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Distribution, such Distribution being payable in arrear on each Distribution Payment Date.

The Rate of Distribution in respect of a Fixed Rate Perpetual Capital Security shall be:

(i) (if no Reset Date is specified in the applicable Pricing Supplement) the Initial Distribution Rate; or

(ii) (if a Reset Date is specified in the applicable Pricing Supplement):

(A) for the period from, and including, the Distribution Commencement Date to, but excluding, the First Reset Date specified in the applicable Pricing Supplement, the Initial Distribution Rate; and

(B) for the period from, and including, the First Reset Date and each Reset Date (as specified in the applicable Pricing Supplement) falling thereafter to, but excluding, the immediately following Reset Date, the Reset Distribution Rate.

The amount of Distribution payable shall be determined in accordance with Condition 4(f).

For the purposes of this Condition 4(a), "**Reset Distribution Rate**" means the Relevant Rate with respect to the relevant Reset Date plus the Initial Spread, each as specified in the applicable Pricing Supplement.

(b) **Distribution on Floating Rate Perpetual Capital Securities**:

(i) *Distribution Payment Dates*: Subject to Condition 5, each Floating Rate Perpetual Capital Security confers a right to receive distribution (each a "**Distribution**") on its outstanding nominal amount from and including the Distribution Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Distribution, such

Distribution being payable in arrear on each Distribution Payment Date. The amount of Distribution payable shall be determined in accordance with Condition 4(f). Such Distribution Payment Date(s) is/are either shown hereon as Specified Distribution Payment Dates or, if no Specified Distribution Payment Date(s) is/are shown hereon, Distribution Payment Date shall mean each date which falls the number of months or other period shown hereon as the Distribution Period after the preceding Distribution Payment Date or, in the case of the first Distribution Payment Date, after the Distribution Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event:

(x) such date shall be brought forward to the immediately preceding Business Day; and

(y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Distribution for Floating Rate Perpetual Capital Securities*: The Rate of Distribution in respect of Floating Rate Perpetual Capital Securities for each Distribution Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Perpetual Capital Securities

Where ISDA Determination is specified hereon as the manner in which the Rate of Distribution is to be determined, the Rate of Distribution for each Distribution Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph (A), "**ISDA Rate**" for a Distribution Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Distribution Accrual Period unless otherwise specified hereon.

For the purposes of this paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Perpetual Capital Securities (other than Floating Rate Perpetual Capital Securities where the Reference Rate is specified as being SOFR Benchmark)

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Distribution is to be determined where the Reference Rate is not SOFR Benchmark, the Rate of Distribution for each Distribution Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Distribution Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Perpetual Capital Securities is specified hereon as being other than EURIBOR or HIBOR, the Rate of Distribution in respect of such Perpetual Capital Securities will be determined as provided hereon;

(y) If the Relevant Screen Page is not available or if, paragraph (x)(I) above applies and no such offered quotation appears on the Relevant Screen Page or if paragraph (x)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Issuer shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Issuer and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Distribution Determination Date in question. If two or more of the Reference Banks provide the Issuer with such offered quotations, the Rate of Distribution for such Distribution Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) If paragraph (y) above applies and the Issuer determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Distribution shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Issuer to the Issuer and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Distribution Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR, the Hong Kong interbank market, as the case may be, or, if fewer than two of the Reference Banks provide the Issuer and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Distribution Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Issuer and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR, the Hong Kong interbank market, as the case may be, **provided that**, if the Rate of Distribution cannot be determined in accordance with the foregoing provisions, the Rate of Distribution shall be determined as at the last preceding Distribution Determination Date (though substituting, where a different Margin or Maximum Rate of Distribution or Minimum Rate of Distribution is to be applied to the relevant Distribution Accrual Period from that which applied to the last preceding Distribution Accrual Period, the Margin or Maximum Rate of Distribution or Minimum Rate of Distribution relating to the relevant Distribution Accrual Period, in place of the Margin or Maximum Rate of Distribution or Minimum Rate of Distribution relating to that last preceding Distribution Accrual Period).

(C) Screen Rate Determination for Floating Rate Perpetual Capital Securities where the Reference Rate is specified as being SOFR Benchmark

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Distribution is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Distribution for each Distribution Accrual Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any) in accordance with Condition 4(e), all as determined by the Calculation Agent on the relevant Distribution Determination Date.

The "**SOFR Benchmark**" will be determined based on Simple SOFR Average, Compounded Daily SOFR or SOFR Index, as follows (subject in each case to Condition 4(j) as further specified hereon):

(x) If Simple SOFR Average ("**Simple SOFR Average**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Distribution Accrual Period shall be the arithmetic mean of the SOFR reference rates for each day during the period, as calculated by the Calculation Agent, and where, if applicable and as specified hereon, the SOFR reference rate on the SOFR Rate Cut-Off Date shall be used for the days in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Distribution Period End Date.

(y) If Compounded Daily SOFR ("**Compounded Daily SOFR**") is specified hereon as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Distribution Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Distribution Accrual Period (where SOFR Lag, SOFR Payment Delay or SOFR Lockout is specified as applicable hereon to determine Compounded Daily SOFR) or the SOFR Observation Period (where SOFR Observation Shift is specified as applicable hereon to determine Compounded Daily SOFR).

Compounded Daily SOFR shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified as applicable hereon:

(I) SOFR Lag:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_{i-xUSBD} \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_{i\text{-}xUSBD}$**" for any U.S. Government Securities Business Day(i) in the relevant Distribution Accrual Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day(i);

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Distribution Accrual Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Distribution Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Distribution Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(II) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"$\mathbf{SOFR_i}$" for any U.S. Government Securities Business Day(i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**SOFR Observation Period**" means, in respect of a Distribution Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Distribution Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Distribution Period End Date for such Distribution Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"$\mathbf{d_o}$" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "**U.S. Government Securities Business Day(i)**"); and

"$\mathbf{n_i}$", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

(III) SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day(i) in the relevant Distribution Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i);

"**Distribution Payment Date**" shall be the number of Distribution Payment Delay Days following each Distribution Period End Date; provided that the Distribution Payment Date with respect to the final Distribution Accrual Period will be the Perpetual Capital Securities Optional Redemption Date on which the Issuer elects to redeem the Perpetual Capital Securities;

"**Distribution Payment Delay Days**" means the number of Business Days as specified hereon;

"**d**" means the number of calendar days in the relevant Distribution Accrual Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Distribution Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Distribution Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"**ni**", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

For the purposes of calculating Compounded Daily SOFR with respect to the final Distribution Accrual Period where SOFR Payment Delay is specified hereon, the SOFR reference rate for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Perpetual Capital Securities Optional Redemption Date on which the Issuer elects to redeem the Perpetual Capital Securities, shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date.

(IV) SOFR Lockout:

$$\left(\prod_{i=1}^{d_0}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day(i) in the relevant Distribution Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day(i), except that the SOFR for any U.S. Government Securities Business Day(i) in respect of the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Distribution Period End Date for such Distribution Accrual Period shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date;

"**d**" means the number of calendar days in the relevant Distribution Accrual Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Distribution Accrual Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Distribution Accrual Period (each a "**U.S. Government Securities Business Day(i)**"); and

"**n_i**", for any U.S. Government Securities Business Day(i), means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for purpose of Conditions 4(b)(iii)(C)(x) and 4(b)(iii)(C)(y):

"**SOFR**" means, in respect of a U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at the SOFR Determination Time;

(ii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the Secured Overnight Financing

Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website; or

(iii) if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 4(j) shall apply as specified hereon;

"**SOFR Rate Cut-Off Date**" means the date that is a number of U.S. Government Securities Business Days prior to the Distribution Payment Date relating to the relevant Distribution Accrual Period or the relevant Perpetual Capital Securities Optional Redemption Date, as applicable, as specified hereon; and

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day.

(z) If SOFR Index ("**SOFR Index**") is specified as applicable hereon, the SOFR Benchmark for each Distribution Accrual Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**", in respect of a U.S. Government Securities Business Day, means:

(a) the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, provided that in the event that the value originally published by the SOFR Administrator at the SOFR Index Determination Time on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Time in relation to such U.S. Government Securities Business Day;

(b) if a SOFR Index does not so appear as specified in (a) above of this definition, then: (i) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the "SOFR Index" shall be calculated on any Distribution Determination Date with respect to a Distribution Accrual Period, in accordance with the Compounded Daily SOFR formula described above in Condition 4(b)(iii)(C)(y)(II) "SOFR Observation Shift", and the term "SOFR Observation Shift Days" shall mean two U.S. Government Securities Business Days; or (ii) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 4(j) shall apply as specified hereon;

"**SOFR Index$_{\mathbf{End}}$**" means, in respect of a Distribution Accrual Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified hereon prior to the Distribution Period End Date for such Distribution Accrual Period (or in the final Distribution Accrual Period, the Perpetual Capital Securities Optional Redemption Date on which the Issuer elects to redeem the Perpetual Capital Securities);

"**SOFR Index$_{\mathbf{Start}}$**" means, in respect of a Distribution Accrual Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified hereon prior to the first day of such Distribution Accrual Period;

"**SOFR Index Determination Time**" means, in respect of a U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

"**SOFR Observation Period**" means, in respect of a Distribution Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Distribution Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Distribution Period End Date for such Distribution Accrual Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified hereon; and

"**$\mathbf{d_c}$**" means the number of calendar days in the applicable SOFR Observation Period.

The following defined terms shall have the meanings set out below for purpose of this Condition 4(b)(iii)(C):

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York (currently, being *https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index*), or any successor source;

"**SOFR Benchmark Replacement Date**" means the Benchmark Replacement Date with respect to the then-current Benchmark;

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then-current Benchmark; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) **Determination and Publication of Reset Distribution Rate**: The Calculation Agent shall, on the second Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate and cause the Reset Distribution Rate to be notified to the Trustee, the Issuer, each of the Paying Agents, the Securityholders, any other Calculation Agent appointed in respect of the Perpetual Capital Securities that is to make a further calculation upon receipt of such information and, if the Perpetual Capital Securities are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Distribution and Distribution Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

The determination of any rate, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(d) **Accrual of Distribution**: Subject to Condition 5, Distribution shall cease to accrue on each Perpetual Capital Security on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event Distribution shall continue to accrue (both before and after judgment) at the Rate of Distribution in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 9).

(e) **Margin, Maximum/Minimum Rates of Distribution and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Distribution Accrual Periods), an adjustment shall be made to all Rates of Distribution, in the case of (x), or the Rates of Distribution for the specified Distribution Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 4(e)(ii).

(ii) If any Maximum Rate of Distribution or Minimum Rate of Distribution or Redemption Amount is specified hereon, then any Rate of Distribution or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the fifth decimal place (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(f) **Calculations**: The amount of Distribution payable per calculation amount specified hereon (or, if no such amount is so specified, the Specified Denomination) (the "**Calculation Amount**") in respect of any Perpetual Capital Security for any Distribution Accrual Period shall be equal to the product of the Rate of Distribution, the Calculation Amount, and the Day Count Fraction for such Distribution Accrual Period, unless a Distribution Amount (or a formula for its calculation) is applicable to such Distribution Accrual Period, in which case the amount of Distribution payable per Calculation Amount in respect of such Perpetual Capital Security for such Distribution Accrual Period shall equal such Distribution Amount (or be calculated in accordance with such formula). Where any Distribution Period comprises two or more Distribution Accrual Periods, the amount of Distribution payable per Calculation Amount in respect of such Distribution Period shall be the sum of the Distribution Amounts payable in respect of each of those Distribution Accrual Periods. In respect of any other period for which Distributions are required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which Distributions are required to be calculated.

(g) **Determination and Publication of Rates of Distribution, Distribution Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts**: The Calculation Agent shall, as soon as practicable on each Distribution Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount or make any determination or calculation, determine such rate and calculate the Distribution Amounts for the relevant Distribution Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount or make such determination or calculation, as the case may be, and cause the Rate of Distribution and the Distribution Amounts for each Distribution Accrual Period and the relevant Distribution Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Securityholders, any other Calculation Agent appointed in respect of the Perpetual Capital Securities that is to make a further calculation upon receipt of such information and, if the Perpetual Capital Securities are listed on a stock exchange and the rules of such exchange or other relevant authority so require, subsequently notified by the Issuer to such exchange or other relevant authority as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Distribution and Distribution Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

Where any Distribution Payment Date or Distribution Period End Date is subject to adjustment pursuant to Condition 4(b)(ii), the Distribution Amounts and the Distribution Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Distribution Period. If the Perpetual Capital Securities become due and payable under Condition 11, the accrued Distribution and the Rate of Distribution payable in respect of the Perpetual Capital Securities shall nevertheless continue to be calculated as previously in accordance with this Condition (g) but no publication of the Rate of Distribution or the Distribution Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Determination or Calculation by an agent of the Issuer**: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Distribution for a Distribution Accrual Period or any Distribution Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Issuer shall appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 4(h), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation such agent pursuant to this Condition 4(h) shall (in the absence of manifest error) be final and binding upon all parties.

(i) **Benchmark Discontinuation (general)**: this Condition 4(i) shall apply to only those Perpetual Capital Securities for which this Condition 4(i) is specified as "Applicable" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 4(i), no Successor Rate or Alternative Rate (as applicable) will be adopted, and no other amendments to the terms of any Perpetual Capital Securities for will be made pursuant to this Condition 4(i), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of any of the Perpetual Capital Securities for as Additional Tier 1 capital of the Issuer and/or the Group.

(i) *Independent Adviser*: Other than in the case of a U.S. dollar-denominated Floating Rate Perpetual Capital Securities where Benchmark Discontinuation (SOFR) is specified as applicable, if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Distribution (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with Condition 4(i)(ii)) and, in either case, an Adjustment Spread (if any, in accordance with Condition 4(i)(iii)) and any Benchmark Amendments (in accordance with Condition 4(i)(iv)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 4(i) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents or the Securityholders for any determination made by it, pursuant to this Condition 4(i).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser fails to determine a Successor Rate or, failing which, an Alternative Rate, in accordance with this Condition 4(i)(i) prior to the relevant Distribution Determination Date, the Rate of Distribution applicable to the next succeeding Distribution Accrual Period shall be equal to the Rate of Distribution last determined in relation to the Perpetual Capital Securities in respect of the immediately preceding Distribution Accrual Period. If there has not been a first Distribution Payment Date, the Rate of Distribution shall be the initial Rate of Distribution. Where a different Margin or Maximum or Minimum Rate of Distribution is to be applied to the relevant Distribution Accrual Period from that which applied to the last preceding Distribution Accrual Period, the Margin or Maximum or Minimum Rate of Distribution relating to the relevant Distribution Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Distribution relating to that last preceding Distribution

Accrual Period. This paragraph shall apply to the relevant next succeeding Distribution Accrual Period only and any subsequent Distribution Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4(i)(i).

(ii) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Distribution (or the relevant component part thereof) for all future payments of Distribution on the Perpetual Capital Securities (subject to the operation of this Condition 4(i)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Distribution (or the relevant component part thereof) for all future payments of Distribution on the Perpetual Capital Securities (subject to the operation of this Condition 4(i)).

(iii) *Adjustment Spread*: If the Independent Advisor determines that:

(A) an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be); and

(B) the quantum of, or a formula or methodology for determining such Adjustment Spread,

then the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*: If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4(i) and the Independent Adviser determines:

(A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and

(B) the terms of the Benchmark Amendments,

then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(i)(v), without any requirement for the consent or approval of Securityholders, the Trustee or the Agents, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 4(i)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Securityholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), **provided that** the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including any supplemental trust deed) in any way.

The Trustee and the Issuing and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 4(i)(iv). Securityholders' consent shall not be required in connection with effecting of the Successor Rate or the Alternative Rate (as applicable) or such other changes, including the execution of any documents or any steps by the Trustee or the Issuing and Paying Agent (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

In connection with any such variation in accordance with this Condition 4(i)(iv), the Issuer shall comply with the rules of any stock exchange on which the Perpetual Capital Securities are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 4(i)(iv), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Perpetual Capital Securities as Additional Tier 1 capital of the Issuer for the purposes of the Banking Capital Regulations.

(v) *Notices*: Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4(i) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 16, the Securityholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable, Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(i); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate, Alternative Rate, the Adjustment Spread or the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents, the Securityholders.

(vi) *Survival of Original Reference Rate*: Without prejudice to the obligations of the Issuer under Conditions 4(i)(i), 4(i)(ii), 4(i)(iii) and 4(i)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 4(b)(iii)(B), as applicable, will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions*:

As used in this Condition 4(i):

"**Adjustment Spread**" means either:

(i) a spread (which may be positive, negative or zero); or

(ii) a formula or methodology for calculating a spread,

in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(b) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser determines as being customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(c) (if the Independent Adviser determines that no such spread is customarily applied) the Independent Adviser (in consultation with the Issuer) determines, and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 4(i)(ii) as being customarily applied in market usage in the international debt capital markets transactions for the purposes of determining rates of Distribution (or the relevant component part thereof) in the same Specified Currency as the Perpetual Capital Securities.

"**Benchmark Amendments**" has the meaning given to it in Condition 4(i)(iv).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and, if a date has been fixed for redemption of the Perpetual Capital Securities in accordance with these Conditions, such cessation is reasonably expected by the Issuer to occur prior to the relevant Perpetual Capital Securities Optional Redemption Date; or

(iii) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued and, if a date has been fixed for redemption of the Perpetual Capital Securities in accordance with these Conditions, such discontinuation is reasonably expected by the Issuer to occur prior to the relevant Perpetual Capital Securities Optional Redemption Date; or

(iv) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Perpetual Capital Securities and, if a date has been fixed for redemption of the Perpetual Capital Securities in accordance with these Conditions, such prohibition is reasonably expected by the Issuer to occur prior to the relevant Perpetual Capital Securities Optional Redemption Date;

(v) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is (or is deemed by such supervisor to be) no longer representative of its relevant underlying market and, if a date has been fixed for redemption of the Perpetual Capital Securities in accordance with these Conditions, such discontinuation is reasonably expected by the Issuer to occur prior to the relevant Perpetual Capital Securities Optional Redemption Date; or

(vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Securityholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (i) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (ii) in the case of sub-paragraph (iv) above, on the date of the prohibition of use of the Original Reference Rate and (iii) in the case of sub-paragraph (v) above, on the date with effect from which the Original Reference Rate is no longer (or is deemed by the relevant regulator or supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents.

"**Independent Adviser**" means an independent financial institution of international or national repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 4(i)(i).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Distribution (or any component part thereof) on the Perpetual Capital Securities.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates;

(b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable);

(c) a group of the aforementioned central banks or other supervisory authorities; or

(d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(j) **Benchmark Discontinuation (SOFR)**: this Condition 4(j) shall apply to only those U.S. dollar-denominated Perpetual Capital Securities for which this Condition 4(j) is specified as "Applicable" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 4(j), no Benchmark Replacement will be adopted, and no other amendments to the terms of any Perpetual Capital Securities will be made pursuant to this Condition 4(j), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of any of the Perpetual Capital Securities as Additional Tier 1 capital of the Issuer and/or the Group.

(i) *Benchmark Replacement*: If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Perpetual Capital Securities in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) *Benchmark Replacement Conforming Changes*: In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. The Trustee and the Agents shall, at the direction and expense of the Issuer but subject to receipt by the Trustee and the Agents of a certificate signed by two Authorised Signatories of the Issuer confirming that a Benchmark Event has occurred, be obliged to effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required to give effect to this Condition 4(j), **provided that** the Trustee and the Agents shall not be obliged so to concur if in the opinion of the Trustee or the Agents doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee and the Agents in these Conditions, the Trust Deed or the Agency Agreement (including any supplemental trust deed or supplemental agency agreement) in any way. Securityholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Trustee or any of the Agents (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(iii) *Decisions and Determinations*: Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 4(j), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (A) will be conclusive and binding absent manifest error, (B) will be made in the sole discretion of the Issuer or its designee, as applicable, and (C) notwithstanding anything to the contrary in the documentation relating to the Perpetual Capital Securities, shall become effective without consent from the holders of the Perpetual Capital Securities or any other party.

(iv) *Definitions*: The following defined terms shall have the meanings set out below for purpose of this Condition 4(j):

"**2006 ISDA Definitions**" means, in relation to a Series of Perpetual Capital Securities, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Perpetual Capital Securities of such Series) as published by ISDA (copies of which may be obtained from ISDA at www.isda.org);

"**2021 ISDA Definitions**" means, in relation to a Series of Perpetual Capital Securities, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Perpetual Capital Securities of such Series, as published by ISDA on its website (www.isda.org);

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified hereon; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement;

"**Benchmark Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the sum of:

(1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(2) the Benchmark Replacement Adjustment;

(B) the sum of:

(1) the ISDA Fallback Rate; and

(2) the Benchmark Replacement Adjustment; or

(C) the sum of:

(1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Perpetual Capital Securities at such time; and

(2) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Perpetual Capital Securities at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of distribution, rounding of amounts or tenors, and other administrative matters) the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) in the case of sub-paragraph (A) or (B) of the definition of "Benchmark Event", the later of:

(1) the date of the public statement or publication of information referenced therein; and

(2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(B) in the case of sub-paragraph (C) of the definition of "Benchmark Event", the date of the public statement or publication of information referenced therein.

If the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" has the meaning given in the relevant Pricing Supplement;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (A) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded Daily SOFR is specified as applicable hereon) or SOFR

Index Determination Time (where SOFR Index is specified as applicable hereon), or (B) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(k) **Definitions**: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Perpetual Capital Securities denominated in a currency other than Euro or Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;

(ii) in the case of Perpetual Capital Securities denominated in Euro, a TARGET Settlement Day and a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments of Euro in Luxembourg;

(iii) in the case of Perpetual Capital Securities denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Financial Centres, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of Distribution on any Perpetual Capital Security for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Distribution Period or a Distribution Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of:

(A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and

(B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31 and D1 is greater than 29, in which case D2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31, in which case D2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number is 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February or (ii) such number is 31, in which case D2 will be 30;

(vii) if "**Actual/Actual-ICMA**" is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of:

(x) the number of days in such Determination Period; and

(y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of:

(1) the number of days in such Determination Period; and

(2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of:

(1) the number of days in such Determination Period; and

(2) the number of Determination Periods normally ending in any year,

where for the purposes of this "Actual/Actual-ICMA" definition:

"**2006 ISDA Definitions**" means, in relation to a Series of Perpetual Capital Securities, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Perpetual Capital Securities of such Series) as published by ISDA (copies of which may be obtained from ISDA at www.isda.org);

"**2021 ISDA Definitions**" means, in relation to a Series of Perpetual Capital Securities, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Perpetual Capital Securities of such Series, as published by ISDA on its website (www.isda.org);

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Distribution Payment Date(s);

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**CNY**" or "**Renminbi**" means the lawful currency of the PRC;

"**Distribution Accrual Period**" means the period beginning on (and including) the Distribution Commencement Date and ending on (but excluding) the first Distribution Period End Date and each successive period beginning on (and including) a Distribution Period End Date and ending on (but excluding) the next succeeding Distribution Period End Date;

"**Distribution Amount**" means:

(i) in respect of a Distribution Accrual Period, the amount of Distribution payable per Calculation Amount for that Distribution Accrual Period and which, in the case of Fixed Rate Perpetual Capital Securities, and unless otherwise specified hereon, shall mean the Fixed Distribution Amount or Broken Amount specified hereon as being payable on the Distribution Payment Date ending the Distribution Period of which such Distribution Accrual Period forms part; and

(ii) in respect of any other period, the amount of Distribution payable per Calculation Amount for that period;

"**Distribution Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Distribution Determination Date**" means, with respect to a Rate of Distribution and Distribution Accrual Period, the date specified as such hereon or, if none is so specified:

(i) the first day of such Distribution Accrual Period if the Specified Currency is Sterling or Hong Kong Dollars or Renminbi; or

(ii) the day falling two Business Days in London prior to the first day of such Distribution Accrual Period if the Specified Currency is neither Sterling nor Hong Kong Dollars nor Euro nor Renminbi; or

(iii) the day falling two TARGET Settlement Days prior to the first day of such Distribution Accrual Period if the Specified Currency is Euro;

"**Distribution Period**" means the period beginning on (and including) the Distribution Commencement Date and ending on (but excluding) the first Distribution Payment Date and each successive period beginning on (and including) a Distribution Payment Date and ending on (but excluding) the next succeeding Distribution Payment Date;

"**Distribution Period End Date**" means each Distribution Payment Date unless otherwise specified hereon;

"**Euro**" means the currency of the member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended from time to time;

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended;

"**HKD**" or **Hong Kong dollars**" means the lawful currency of Hong Kong;

"**ISDA Definitions**" has the meaning given in the relevant Pricing Supplement;

"**Rate of Distribution**" means the rate of Distribution payable from time to time in respect of this Perpetual Capital Security and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means:

(i) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market; and

(ii) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market,

in each case selected by the Issuer or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Perpetual Capital Securities are denominated;

"**Sterling**" means the lawful currency of the United Kingdom;

"**T2**" means the real time gross settlement system operated by the Eurosystem or any successor system; and

"**TARGET Settlement Day**" means any day on which T2 is open for the settlement of payments in euro.

(l) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Perpetual Capital Security is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Perpetual Capital Securities, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Distribution for a Distribution Accrual Period or to calculate any Distribution Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

5. **Distribution Restrictions**

(a) **Optional Distribution Cancellation Event:** Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of Distribution (an "**Optional Distribution Cancellation Event**"), in whole or in part, by giving a notice signed by two Authorised Signatories of the Issuer, which shall be conclusive and binding on the Securityholders (such notice, a "**Distribution Cancellation Notice**") of such election to the Securityholders in accordance with Condition 16, and to the Trustee and the Agents in writing at least 10 Business Days prior to the relevant Distribution Payment Date. The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 5 and any failure to pay such Distribution shall not constitute a Default. Distributions are non-cumulative and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

In this Condition 5 "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in Hong Kong.

(b) **Mandatory Distribution Cancellation Event**: Notwithstanding that a Distribution Cancellation Notice has not been given, the Issuer will not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, if and to the extent that:

(A) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer's then current fiscal year on any Parity Obligations or any instruments which effectively rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or

(B) the Monetary Authority so directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations,

(each a "**Mandatory Distribution Cancellation Event**").

The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with this Condition 5(b) and any failure to pay such Distribution shall not constitute a Default. Distributions are non-cumulative and any Distribution which is cancelled shall therefore not be payable at any time thereafter whether in a Winding-Up or otherwise.

(c) **Distributable Reserves**: Any Distribution may only be paid out of Distributable Reserves.

(d) **Dividend Stopper**: If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of this Condition 5, the Issuer shall not:

(A) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or

(B) purchase, cancel or otherwise acquire any Shares or permit any of its Subsidiaries to do so,

in each case, unless or until the earlier of:

(i) the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to such subsequent Distribution Payment Date) has been paid in full:

(I) to Securityholders; or

(II) irrevocably to a designated third party trust account for the benefit of the Securityholders pending payment by the trustee thereof to the Securityholders on such subsequent Distribution Payment Date;

(ii) the redemption or purchase and cancellation of the Perpetual Capital Securities in full, or reduction of the principal amount of the Perpetual Capital Securities to zero; or

(iii) the Issuer is permitted to do so by an Extraordinary Resolution.

(e) **No Default**: Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution in accordance with this Condition 5 shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 11) on the part of the Issuer.

In these Conditions:

"**Auditors**" means the independent certified public accountants for the time being of the Issuer;

"**Distributable Reserves**" means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the Issuer's latest audited balance sheet, and subject to the Monetary Authority's then current Banking Capital Regulations as applicable to the Issuer on the relevant Distribution Payment Date (the "**Available Amount**"); **provided that** if the Issuer reasonably determines that the Available Amount as at any Distributable Reserves Determination Date is lower than the Available Amount as at the date of the Issuer's latest audited balance sheet and is insufficient to pay the Distributions and any payments on Parity Obligations on the relevant Distribution

Payment Date, then on certification by two Authorised Signatories and the Auditors of such revised amount, the Distributable Reserves shall for the purposes of Distribution mean the Available Amount as set forth in such certificate;

"**Distributable Reserves Determination Date**" means the day falling two Hong Kong Business Days prior to a Distribution Payment Date;

"**Hong Kong Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in Hong Kong; and

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

Pursuant to section 297(1) of the Companies Ordinance (Cap.622), the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap.622), the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

6. **Redemption, Purchase and Options**

(a) **No Fixed Redemption Date**: The Perpetual Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Perpetual Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

Any redemption of Perpetual Capital Securities intended to qualify as Additional Tier 1 Capital Instruments by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(b) **Early Redemption**: The Early Redemption Amount or Optional Redemption Amount payable in respect of any Perpetual Capital Security, upon redemption of such Perpetual Capital Security pursuant to this Condition 6 or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation and Tax Deductibility Reasons**: Subject to Condition 6(i), the Perpetual Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, (the "**Optional Tax Redemption**") on any Distribution Payment Date (if such Perpetual Capital Security is at the relevant time a Floating Rate Perpetual Capital Security) or at any time (if such Perpetual Capital Security is at the relevant time not a Floating Rate Perpetual Capital Security), on giving not less than 30 but not more than 60 days' notice to the Securityholders (which notice shall be irrevocable) and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing at, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in accordance with Condition 7, their Early Redemption Amount (as described in Condition 6(b)) together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption or, if the Early Redemption Amount is not specified hereon, at their nominal amount, together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption, if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(A) the Issuer has or will become obliged to pay Additional Amounts (as described under Condition 9); or

(B) in respect of payments of Distribution on the Perpetual Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong,

in each case of paragraphs (A) and (B) above:

(I) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax (or any taxing authority of any taxing jurisdiction in which the Issuer is a tax resident) or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Perpetual Capital Securities; and

(II) the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

provided that, where the Issuer has or will become obliged to pay Additional Amounts, no such notice of redemption shall be given earlier than (a) if such Perpetual Capital Security is a Floating Rate Perpetual Capital Security, 60 days, or (b) if such Perpetual Capital Security is not a Floating Rate Perpetual Capital Security, 90 days, in each case, prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Perpetual Capital Securities then due and, in each case, **provided that** no notices of redemption shall be given prior to the compliance with the requirements in Condition 6(i).

Prior to giving any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment; and

(y) a copy of the written consent of the Monetary Authority as referred to in Condition 6(i),

and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as conclusive evidence of the satisfaction of the condition precedent set out above, in which event it shall be conclusive and binding on Securityholders.

Any redemption of Perpetual Capital Securities intended to qualify as Additional Tier 1 Capital Instruments by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(d) **Redemption at the option of the Issuer:** Subject to Condition 6(i), and unless otherwise specified in the applicable Pricing Supplement, if Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Securityholders and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing, elect to redeem all, but not some only, of the Perpetual Capital Securities on the relevant date(s) specified hereon (which shall not be less than five years from the Issue Date) (the "**Perpetual Capital Securities Optional Redemption Dates**") at, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in accordance with Condition 7, their Optional Redemption Amount specified hereon or, if no Optional Redemption Amount is specified hereon, at their nominal amount together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption in accordance with these Conditions and **provided that** no such notice of redemption shall be given prior to the compliance with Condition 6(i).

All Perpetual Capital Securities in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

Any redemption of Perpetual Capital Securities intended to qualify as Additional Tier 1 Capital Instruments by the Issuer is subject to the Issuer obtaining the prior written approval of the Monetary Authority.

(e) **Redemption for Regulatory Reasons in respect of Perpetual Capital Securities**: Following the occurrence of a Capital Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Securityholders in accordance with Condition 16 (which notice shall be irrevocable) and to the Trustee and the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent in writing, redeem in accordance with these Conditions on any Distribution Payment Date (if this Perpetual Capital Security is at the relevant time a Floating Rate Perpetual Capital Security) or at any time (if this Perpetual Capital Security is at the relevant time not a Floating Rate Perpetual Capital Security) all, but not some only, of the relevant Perpetual Capital Securities, at, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their nominal amount together with Distribution accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and **provided that** no such notice of redemption shall be given prior to the compliance with Condition 6(i).

For the purposes of this Condition 6(e), a "**Capital Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(e), the Perpetual Capital Securities, after having qualified as such, will no longer qualify (in whole but not in part) as Additional Tier 1 capital (or equivalent) of the Issuer, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Capital Regulations, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(e), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that a Capital Event has occurred; and

(y) a copy of the written consent of the Monetary Authority, and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Securityholders. Upon expiry of such notice, the Issuer shall redeem the Perpetual Capital Securities in accordance with this Condition 6(e).

(f) **Purchases**: The Issuer and any of its Subsidiaries may at any time purchase Perpetual Capital Securities in the open market or otherwise at any price in accordance with all relevant laws and regulations and, for so long as the Perpetual Capital Securities are listed, the requirements of the relevant stock exchange and **provided that** no such purchase shall be made prior to the compliance with Condition 6(i). The Perpetual Capital Securities so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Securityholder to vote at any meetings of the Securityholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating the quorums at meetings of Securityholders or the purposes of Condition 12(a). The Issuer or any such Subsidiary may, at its option, retain such purchased Perpetual Capital Securities for its own account and/or resell or cancel or otherwise deal with them at its discretion.

(g) **Cancellation**: All Perpetual Capital Securities purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation by surrendering the Certificate representing such Perpetual Capital Securities to the Registrar and, if so surrendered, shall, together with all Perpetual Capital Securities redeemed by the Issuer, be cancelled forthwith. Any Perpetual Capital Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Perpetual Capital Securities shall be discharged. Any Perpetual Capital Security that is Written-off in full in accordance with Condition 7 shall be automatically cancelled.

(h) **No Obligation to Monitor**: In the case of Perpetual Capital Securities, the Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to the Securityholders for any loss arising from any failure by it to do so. Unless and until the Trustee has notice in writing of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

(i) **Conditions for Redemption, Purchase of Perpetual Capital Securities**: Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Perpetual Capital Securities (other than pursuant to Condition 11) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Perpetual Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Capital Regulations, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. This provision shall not apply to the Issuer or any of its Subsidiaries holding any Perpetual Capital Securities in a purely nominee or custodian capacity.

7. **Non-Viability Loss Absorption and Hong Kong Resolution Authority Power in respect of Perpetual Capital Securities**

The ability to operationally effect any Write-off of any Perpetual Capital Securities or any cancellation, modification, conversion or change in form as a result of the exercise of the Monetary Authority's powers under this Condition 7 with respect to the clearing and/or settlement of any Perpetual Capital Securities in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off or such cancellation, modification, conversion or change in form in the relevant clearing system(s).

However, (i) any Write-off of any Perpetual Capital Securities under Condition 7(a) will be effective upon the date that the Issuer specifies in the Non-Viability Event Notice and (ii) the exercise of the Hong Kong Resolution Authority Power under Condition 7(b) will be effective upon the date specified in the Resolution Notice (or as may otherwise be notified in writing to Securityholders, the Trustee and Agents by the Issuer) notwithstanding any inability to operationally effect any such Write-off or any cancellation, modification, conversion or change in form as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 in the relevant clearing system(s).

The Trust Deed and Agency Agreement may contain certain protections and disclaimers as applicable to the Trustee and Agents in relation to this Condition 7. Each Securityholder shall be deemed to have authorised, directed and requested the Trustee, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Write-off following the occurrence of the Non-Viability Event and/or the exercise of any Hong Kong Resolution Authority Power.

(a) **Non-Viability Loss Absorption upon a Non-Viability Event in respect of Perpetual Capital Securities**:

(i) If "**Write-off**" is specified as being applicable for the Loss Absorption Option in the applicable Pricing Supplement for any Perpetual Capital Securities and a Non-Viability Event occurs and is continuing, the Issuer shall, upon or prior to the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Trustee or the holders of any Perpetual Capital Securities) reduce the then outstanding principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Perpetual Capital Security (in each case, in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Perpetual Capital Security (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the "**Write-off**", and "**Written-off**" shall be construed accordingly).

(ii) Concurrently with the giving of the Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that:

(A) a similar notice be given in respect of other Subordinated Capital Instruments in accordance with their terms; and

(B) concurrently and rateably with the Write-off of the Perpetual Capital Securities, the aggregate principal amount of such other Parity Capital Instruments is subject to a Write-off on a *pro rata* basis with the Perpetual Capital Securities.

(iii) Any Write-off pursuant to this provision will not constitute a Default under the Perpetual Capital Securities. Any failure or delay in giving a Non-Viability Event Notice in respect of the Perpetual Capital Securities or a similar notice in respect of other Subordinated Capital Instruments will not render the Write-off invalid or affect the Write-off in any respect.

(iv) Any Perpetual Capital Security may be subject to one or more Write-offs in part (as the case may be), except where such Perpetual Capital Security has been Written-off in its entirety. In the case of Write-off in part, a new Certificate shall be issued thereafter to each Securityholder in respect of the balance of the holding of Perpetual Capital Securities not Written-off.

(v) Once the outstanding principal amount of, and any accrued but unpaid Distribution under, a Perpetual Capital Security has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of its holding of any Perpetual Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

(vi) Any reference in these Conditions to principal in respect of the Perpetual Capital Securities shall refer to the principal amount of the Perpetual Capital Security(ies), reduced by any applicable Write-off(s).

(vii) *Definitions*:

In these Conditions:

"**Non-Viability Event**" means the earlier of:

(A) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or

(B) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable;

"**Non-Viability Event Notice**" means the notice, which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders, in accordance with Condition 16, and to the Trustee and the Paying Agents in writing, and which shall state:

(A) in reasonable detail the nature of the relevant Non-Viability Event; and

(B) the Non-Viability Event Write-off Amount for:

(x) each Perpetual Capital Security; and

(y) each other Subordinated Capital Instrument in accordance with its terms, "**Non-Viability Event Write-off Amount**" means the amount of Distribution and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue, where:

(A) the full amount of the Perpetual Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue; and

(B) in the case of an event falling within paragraph (B) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support.

Further, the Non-Viability Event Write-off Amount in respect of each Perpetual Capital Security will be calculated based on a percentage of the principal amount of that Perpetual Capital Security;

"**Parity Capital Instrument**" means any Parity Obligation and as may be further specified in the applicable Pricing Supplement which contains provisions relating to a write-down or conversion into Shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

"**Subordinated Capital Instrument**" means any Junior Obligation or Parity Obligation and as may be further specified in the applicable Pricing Supplement which contains provisions relating to a write-down or conversion into Shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

(b) **Hong Kong Resolution Authority Power in respect of Perpetual Capital Securities**:

(i) Notwithstanding any other term of the Perpetual Capital Securities, including without limitation Condition *7*(a), or any other agreement or arrangement, each holder of Perpetual Capital Securities and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Perpetual Capital Securities being written off, cancelled, converted or modified, or to having the form of the Perpetual Capital Securities changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(A) the reduction or cancellation of all or a part of the outstanding principal amount of, or Distribution on, the Perpetual Capital Securities;

(B) the conversion of all or a part of the outstanding principal amount of, or Distribution on, the Perpetual Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Securityholder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Perpetual Capital Securities; and

(C) the amendment or alteration of the maturity of the Perpetual Capital Securities or amendment or alteration of the amount of Distribution payable on the Perpetual Capital Securities, or the date on which the Distribution becomes payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

(ii) With respect to (A), (B) and (C) above of Condition 7(b)(i), references to principal and Distribution shall include payments of principal and Distribution that have become due and payable (including principal that has become due and payable at the redemption date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the holders of Perpetual Capital Securities and the Trustee under the Perpetual Capital Securities and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

(iii) No repayment of the outstanding principal amount of the Perpetual Capital Securities or payment of Distribution on the Perpetual Capital Securities shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority in relation to such Perpetual Capital Securities unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

(iv) Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Perpetual Capital Securities, the Issuer shall provide a written notice regarding such exercise of the Hong Kong Resolution Authority Power (a "**Resolution Notice**") to the Securityholders in accordance with Condition 16 and to the Trustee in writing not more than two Hong Kong Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power.

(v) Neither the reduction or cancellation, in part or in full, of the outstanding principal amount of, or Distribution on the Perpetual Capital Securities, the conversion thereof into another share, security or other obligation of the Issuer or another person, or any other amendment or alteration of these Conditions or any other modification or change in form of the Perpetual Capital Securities as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Perpetual Capital Securities shall constitute a Default under Condition 11.

(vi) *Definitions*:

In this Condition 7(b):

"**Financial Institutions (Resolution) Ordinance**" means the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong, as amended or superseded from time to time;

"**Group**" means the Issuer and its Subsidiaries;

"**Hong Kong Resolution Authority Power**" means any power which may exist from time to time under the Financial Institutions (Resolution) Ordinance relating to the financial institutions, including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the Issuer or other members of the Group (including powers under Part 4 and Part 5 of the Financial Institutions (Resolution) Ordinance) or any other laws, regulations, rules or requirements relating thereto, as the same may be amended from time to time (whether pursuant to the Financial Institutions (Resolution) Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person; and

"**relevant Hong Kong Resolution Authority**" means any authority with the ability to exercise a Hong Kong Resolution Authority Power in relation to the Issuer from time to time.

Please see the risk factor entitled "The resolution regime in Hong Kong may override the contractual terms of the Perpetual Capital Securities" for further information.

8. **Payments**

(a) Perpetual Capital Securities not held in the CMU:

(i) Payments of principal shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Distribution shall be paid to the person shown on the Register at the close of business:

(A) in the case of a currency other than Renminbi, on the 15th day before the due date for payment thereof; and

(B) in the case of Perpetual Capital Securities denominated in Renminbi, on the fifth business day before the due date for payment (the "**Record Date**").

Payments of Distribution on each Perpetual Capital Security shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Securityholder. If a Securityholder does not maintain a registered account in respect of a payment to be made under the Perpetual Capital Securities, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that Securityholder by another means, **provided that** the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(a):

"**registered account**" means the Renminbi account maintained by or on behalf of the Securityholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

(b) **Perpetual Capital Securities held in the CMU:** Payments of principal and Distribution in respect of Perpetual Capital Securities held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) Distributions in the relevant Perpetual Capital Security are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

For so long as any of the Perpetual Capital Securities that are cleared through the CMU are represented by a Global Certificate, payments of Distribution or principal will be made to the CMU for their distribution to the persons for whose account a relevant interest in that Global Certificate is credited as being held by the operator of the CMU at the relevant time. Such payment will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the interbank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

(c) **Payments subject to fiscal laws:** Payments will be subject in all cases to:

(i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 9, in the place of payment; and

(ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

(d) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder. The Issuer reserves the right at any time, with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain:

(i) an Issuing and Paying Agent;

(ii) a Registrar in relation to Perpetual Capital Securities;

(iii) a Transfer Agent in relation to Perpetual Capital Securities;

(iv) a CMU Lodging and Paying Agent in relation to Perpetual Capital Securities accepted for clearance through the CMU;

(v) one or more Calculation Agent(s) where the Conditions so require;

(vi) a Paying Agent in Hong Kong, where the Perpetual Capital Securities may be presented or surrendered for payment or redemption, in the event that the Global Perpetual Capital Securities are exchanged for Definitive Perpetual Capital Securities, for so long as the Perpetual Capital Securities are listed on the HKSE and the rules of the HKSE so require; and

(vii) such other agents as may be required by any other stock exchange on which the Perpetual Capital Securities may be listed, in each case as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Securityholders.

(e) **Non-Business Days:** If any date for payment in respect of any Perpetual Capital Security is not a business day, the Securityholder shall not be entitled to payment until the next following business day nor to any Distribution or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such other jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Settlement Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

9. **Taxation**

All payments of principal and Distribution by or on behalf of the Issuer in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong (the "**Relevant Taxing Jurisdiction**") or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Perpetual Capital Security:

(a) **Other connection:** to, or to a third party on behalf of, a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Perpetual Capital Security by reason of his having some connection with the Relevant Taxing Jurisdiction other than the holding or ownership of the Perpetual Capital Security or receiving income therefrom, or the enforcement thereof; or

(b) **Presentation more than 30 days after the Relevant Date:** where presentation is required or has occurred, presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the Securityholder of it would have been entitled to such Additional Amounts on presenting it for payment on or before the 30th such day.

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid on the Perpetual Capital Securities by, or on behalf of, the Issuer in respect of the Perpetual Capital Securities will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, "**Relevant Date**" in respect of any Perpetual Capital Security means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Securityholders that, upon further presentation of the relevant Certificate representing the Perpetual Capital Security being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to: (i) "**principal**" shall be deemed to include any premium payable in respect of the Perpetual Capital Securities, all Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) "**Distribution**" shall be deemed to include all Distribution Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it; and (iii) "**principal**" and/or "**Distribution**" shall be deemed to include any Additional Amounts that may be payable under this Condition 9 or any undertaking given in addition to or in substitution for it under the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Securityholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), distribution or other amount under or in respect of the Perpetual Capital Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

10. Prescription

Claims against the Issuer for payment in respect of the Perpetual Capital Securities shall be prescribed and will become void unless made within 10 years (in the case of principal) or five years (in the case of Distributions) from the appropriate Relevant Date in respect of them.

11. Default

(a) **Default and Winding-Up Proceedings**:

(i) *Default*: If default is made in the payment of any amount of principal or Distributions in respect of the Perpetual Capital Securities on the due date for payment thereof and such failure continues for a period of seven days in the case of principal or 14 days in the case of Distribution (each, a "**Default**") then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by Securityholders of at least 25 per cent. in principal amount of the outstanding Perpetual Capital Securities or if so directed by an Extraordinary Resolution (as defined in the

Trust Deed), shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute a Winding-Up Proceeding against the Issuer.

(ii) *Winding-Up*: If a Winding-Up of the Issuer has occurred (whether or not a Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by Securityholders of at least 25 per cent. in principal amount of the outstanding Perpetual Capital Securities or if so directed by an Extraordinary Resolution, shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Perpetual Capital Securities to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Redemption Amount together (if appropriate) with Distribution accrued but unpaid (if any) to (but excluding) the date of actual payment, subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 7(a) and subject to the subordination provision in Condition 3, without further action or formality.

(b) **Enforcement, Remedies and Rights of Trustee and Securityholders**:

(i) *Enforcement*: Without prejudice to Condition 11(a), the Trustee may subject as provided below, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Perpetual Capital Securities binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or Distribution in respect of the Perpetual Capital Securities), **provided that** the Issuer shall not as a consequence of such steps, actions or proceedings be obliged to pay any sum or sums representing or measured by reference to principal or Distribution in respect of the Perpetual Capital Securities sooner than the same would otherwise have been payable by it.

(ii) *Trustee Rights*: The Trustee shall not be bound to take action as referred to in Conditions 11(a) and 11(b) or any other action under these Conditions or the Trust Deed unless:

(A) it shall have been so requested in writing by Securityholders holding at least 25 per cent. in principal amount of the Perpetual Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Securityholders; and

(B) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(iii) *Remedies*: Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Conditions 11(a) and 11(b) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Securityholders.

(iv) *Rights of Securityholders*: No Securityholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Securityholder may, on giving an indemnity and/or security and/or pre-funding satisfactory to the Trustee in its sole discretion, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

12. **Meetings of Securityholders, Modification and Waiver**

(a) **Meetings of Securityholders**: The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provision of the Trust Deed and the Agency Agreement. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing to do so by Securityholders holding not less than 10 per cent., in nominal amount of the Perpetual Capital Securities for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Perpetual Capital Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Securityholders whatever the nominal amount of the Perpetual Capital Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(i) to amend the dates of maturity or redemption of the Perpetual Capital Securities or any date for payment of Distribution or Distribution Amounts on the Perpetual Capital Securities;

(ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Perpetual Capital Securities;

(iii) to reduce the rate or rates of Distribution in respect of the Perpetual Capital Securities or to vary the method or basis of calculating the rate or rates or amount of Distribution or the basis for calculating any Distribution Amount in respect of the Perpetual Capital Securities (except as a result of any modification contemplated in Condition 4(i));

(iv) if a Minimum and/or a Maximum Rate of Distribution or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum;

(v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount;

(vi) to vary the currency or currencies of payment or denomination of the Perpetual Capital Securities;

(vii) to amend or modify the subordination or loss absorption provisions in Condition 3 or Condition 7 in respect of the Perpetual Capital Securities;

(viii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply; or

(ix) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than $66\frac{2}{3}$ per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Perpetual Capital Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Securityholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution:

(A) in writing signed by or on behalf of the Securityholders of not less than 90 per cent., in aggregate nominal amount of the Perpetual Capital Securities outstanding and who are entitled to receive notice of a meeting of the Securityholders pursuant to the Trust Deed; and

(B) passed by Electronic Consent (as defined in the Trust Deed),

shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

These Conditions may be amended, modified or varied in relation to any Series of Perpetual Capital Securities by the terms of the applicable Pricing Supplement in relation to such Series.

(b) **Modification of the Trust Deed and waiver**: The Trustee may (but shall not be obliged to) agree, without the consent of the Securityholders, to:

(i) any modification of any of the provisions of the Trust Deed, the Agency Agreement and the Conditions which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law or as required by the CMU and/or Euroclear and/or Clearstream; and

(ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement and the Conditions that is in the opinion of the Trustee not materially prejudicial to the interests of the Securityholders.

Notwithstanding any other provision of these Conditions or the Trust Deed, no modification to any Condition or any provision of the Trust Deed may be made without the prior approval of the Monetary Authority, to the extent that such modification changes or otherwise affects the eligibility of the Perpetual Capital Securities as Tier 1 Capital Instruments. Any such modification, authorisation or waiver shall be binding on the Securityholders and, unless the Trustee agrees otherwise, such waiver or authorisation shall be notified to the Securityholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Securityholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or any holding company of the Issuer or any other subsidiary of any such holding company or their respective successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Perpetual Capital Securities. In the case of such a substitution the Trustee may agree, without the consent of the Securityholders, to a change of the law governing the Perpetual Capital Securities and/or the Trust Deed **provided that** such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Securityholders.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Securityholders as a class and shall not have regard to the consequences of such exercise for individual Securityholders and the Trustee, acting for and on behalf of

Securityholders, shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Securityholders.

13. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may accept and rely without liability to Securityholders or any other person on a report, confirmation or certificate or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may conclusively (without liability) accept and shall be entitled to rely on such report, confirmation, certificate, advice or opinion, in which event and such report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Trustee, and the Securityholders.

Whenever the Trustee is required or entitled by these terms of the Trust Deed, the Agency Agreement or the Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Securityholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Securityholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Securityholders or in the event that no direction is given to the Trustee by the Securityholders. None of the Trustee or any Agent shall be liable to any Securityholder, the Issuer or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Securityholders. The Trustee shall be entitled to rely on any direction, request or resolution of Securityholders given by Securityholders of the requisite principal amount of Perpetual Capital Securities outstanding or passed at a meeting of Securityholders convened and held in accordance with the Trust Deed.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Perpetual Capital Securities of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default, Potential Event of Default (as defined in the Trust Deed) has occurred or may occur or to monitor compliance by the Issuer with the provisions of the Trust Deed, the Agency Agreement and/or these Conditions.

Each Securityholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and its Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Securityholder shall not rely on the Trustee in respect thereof.

14. **Replacement of Certificates**

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Securityholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates and otherwise as the Issuer and/or Agent may require in their sole discretion. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Securityholders, create and issue further securities either having the same terms and conditions as the Perpetual Capital Securities in all respects (or in all respects except for the first payment of Distribution on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Perpetual Capital Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Perpetual Capital Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Perpetual Capital Securities. Any further securities forming a single series with the outstanding securities of any series (including the Perpetual Capital Securities) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Securityholders and the holders of securities of other series where the Trustee so decides.

16. **Notices**

(a) Notices to the Securityholders of Perpetual Capital Securities shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday, Sunday or public holiday) after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Perpetual Capital Securities are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Perpetual Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Securityholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions; or the CMU, notices to the Securityholders of Perpetual Capital Securities of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Issue Position Report issued by the Monetary Authority on the business day preceding the date of despatch of such notice.

(b) A Non-Viability Event Notice or a Resolution Notice to the Securityholders of the relevant Perpetual Capital Securities shall be deemed to have been validly given on the date on which such notice is published in a daily newspaper of general circulation in Asia or, so long as Perpetual Capital Securities are listed on any stock exchange, published on the website of such stock exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

17. **Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Perpetual Capital Security is due (the "**Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Securityholder in respect of any sum expressed to be due to it from the Issuer shall only discharge the Issuer to the extent of the Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Currency amount is less than the Currency amount expressed to be due to the recipient under any Perpetual Capital Security, the Issuer shall indemnify the recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient, on an after-tax basis, against the cost of making any such purchase. This indemnity constitutes a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Securityholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Perpetual Capital Security or any other judgment or order.

18. **Contracts (Rights of Third Parties) Ordinance**

No person shall have any right to enforce any term or condition of the Perpetual Capital Securities under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) of Hong Kong except and to the extent (if any) that the Perpetual Capital Securities expressly provide for such Ordinance to apply to any of their terms.

19. **Governing Law and Jurisdiction**

(a) **Governing Law**: The Trust Deed and the Perpetual Capital Securities are governed by, and shall be construed in accordance with, Hong Kong law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or any Perpetual Capital Securities, and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Perpetual Capital Securities ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

1 Initial Issue of Instruments

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the Monetary Authority as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the Monetary Authority as operator of the CMU or registration of Registered Instruments in the name of:

(a) any nominee for Euroclear and Clearstream; or

(b) the Monetary Authority as operator of the CMU and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the Monetary Authority as operator of the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Instruments equal to the nominal amount thereof for which it has subscribed and paid.

Instruments that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Instruments that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of an Instrument represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Instruments, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Instruments, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled (in the case of Registered Instruments, directed or deemed by the CMU as entitled) to receive payments in respect of Instruments represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Instruments represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

3 Exchange

3.1 *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Instruments defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Instruments.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU)) have so certified.

3.2 *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes*" below, in part for Definitive Instruments or, in the case of (i) below, Registered Instruments:

(i) if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

(ii) if principal in respect of any Instruments is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Instruments lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Instruments, such Definitive Instruments shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Instrument in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 *Global Certificates*

If the relevant Pricing Supplement states that the Instruments are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Instruments held in Euroclear or Clearstream or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Instruments within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Instruments may be withdrawn from the relevant clearing system.

Transfers of the holding of Instruments represented by any Global Certificate pursuant to Note Condition 2 (in respect of the Notes) and Perpetual Capital Securities Condition 2 (in respect of Perpetual Capital Securities) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) if principal in respect of any Instruments is not paid when due; or

(iii) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 ***Partial Exchange of Permanent Global Notes***

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Instruments (i) if principal in respect of any Instruments is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

3.5 ***Delivery of Instruments***

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Instruments lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Instruments or Registered Instruments, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Instruments and/or Certificates, as the case may be. Global Notes and Definitive Instruments will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Instruments**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Instruments will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Instruments.

3.6 ***Exchange Date***

"**Exchange Date**" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; (ii) in relation to an exchange of a permanent Global Note to a Definitive Instrument, a day falling not more than 45 days after the date of receipt of the first relevant notice by the Fiscal

Agent; (iii) in relation to an exchange of a permanent Global Note to a Registered Instrument, a day falling not more than five days after the date of receipt of the first relevant notice by the Fiscal Agent; or (iv) in the case of failure to pay principal in respect of any Instruments when due or an Event of Default has occurred and is continuing, a day falling 30 days after the date of receipt of the first relevant notice by the Fiscal Agent, provided if such date is not a day on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located, the immediately following day.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Instruments that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 *Payments*

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Instruments or Registered Instruments is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Instruments represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Instruments, surrender of that Global Note to or to the order of the Principal Paying Agent as shall have been notified to the Instrumentholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Instruments. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Note Condition 7(i) (in respect of the Notes).

All payments in respect of Instruments represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited in accordance with the CMU Rules and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

So long as the Instruments are represented by a Global Note or Global Certificate and the Global Note or Global Certificate is held on behalf of the Clearing Systems, the Issuer has promised, *inter alia*, to pay interest in respect of such Instruments from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Instruments represented by the Global Note or Global Certificate.

4.2 ***Prescription***

Claims against the Issuer in respect of Instruments that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Note Condition 8).

4.3 ***Meetings***

The holder of a permanent Global Note or of the Instruments represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of Instrumentholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Instruments. (All holders of Registered Instruments are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Instruments comprising such Instrumentholder's holding, whether or not represented by a Global Certificate.)

4.4 ***Cancellation***

Cancellation of any Instruments represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

4.5 ***Purchase***

Instruments represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 ***The Option of the Issuer***

Any option of the Issuer provided for in the Conditions while such Instruments are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Instrumentholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Instruments, the holder of the Registered Instruments in respect of a partial exercise of an option and accordingly no drawing of Registered Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, the CMU or an Alternative Clearing System (as the case may be).

4.7 ***Instrumentholders' Options***

Any option of the Instrumentholders provided for in the Conditions while such Instruments are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note (in accordance with the standard procedures of the relevant clearing system) giving notice to the Fiscal Agent or (in respect of Instruments represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Instruments lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the nominal amount of Instruments in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Fiscal Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

4.8 ***Notices***

So long as any Instruments are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to the CMU.

5 **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Instruments may be exchanged for an interest in a permanent Global Note or for Definitive Instruments (as the case may be). If any Instrumentholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT IN RELATION TO THE NOTES

[EU MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**EU MiFID II**")] [EU MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Consider any negative target market.] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][1]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), the "**Professional Investors**") only.

Notice to Hong Kong investors – The Issuer confirms that the Notes are intended for purchase by Professional Investors only and the Notes (to the extent the Notes are to be listed on the Hong Kong Stock Exchange) will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer (as defined below) or the Issuer and its subsidiaries (the "Group") or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.][2]

Pricing Supplement dated [•]

CHONG HING BANK LIMITED

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$2,000,000,000

Medium Term Note and Perpetual Capital Securities Programme

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Note Conditions (the "**Conditions**") set forth in the Offering Circular dated on or about 12 September 2025 [and the supplemental Offering Circular dated [•]]. This Pricing Supplement contains the final terms of the Notes

1 To remove if sales are only made to institutional investors or accredited investors in Singapore only.

2 For Notes to be listed on The Stock Exchange of Hong Kong Limited. To be confirmed by listing agent following review by The Stock Exchange of Hong Kong Limited.

and must be read in conjunction with such Offering Circular [as so supplemented]. [This Pricing Supplement, together with the information set out in Schedule [•] to this Pricing Supplement, supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein.]

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date:*

Terms used herein shall be deemed to be defined as such for the purposes of the Note Conditions (the "**Conditions**") set forth in the Offering Circular dated on or about [•]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated on or about 12 September 2025 [and the supplemental Offering Circular dated [•]], save in respect of the Conditions which are extracted from the Offering Circular dated on or about [•] and are attached hereto.] Principal and/or interest of the Notes may be written-off upon the occurrence and continuance of a Non-Viability Event in accordance with the terms set out in Condition 7 and paragraph [24] below. In particular, investors in the Notes should read the section titled "*Investment Considerations*" contained therein, including but not limited to the risk factor titled "*The terms of the Subordinated Notes may contain non-viability loss absorption provisions under which the Subordinated Notes may be written-off",* which apply to the issue of Notes described herein. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [•]] and this Pricing Supplement.]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.*]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1	Issuer:		Chong Hing Bank Limited
2	(i)	Series Number:	[•]
	(ii)	Tranche Number:	[•]
	(iii)	[Date on which the Notes become fungible:]	[The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph [•] below, which is expected to occur on or about [*date*]]]/ [Not Applicable] (*if fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3	Specified Currency or Currencies:		[•]
4	Aggregate Nominal Amount:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
5	(i)	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]

	(ii)	[Net Proceeds:]	[[•] (*required only for listed issues*)]
6	(i)	Specified Denominations:[3][4][5]	[•] (*notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum specified denomination for any series or tranche of Subordinated Notes intending to qualify as Tier 2 capital under the Banking Capital Regulations shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, EUR200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue*)
	(ii)	Calculation Amount:	[•][, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority][6] (*the applicable Calculation Amount will be: (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Notes; or (ii) if there are several Specified Denominations or the circumstances referred to in Footnote [3] apply, the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations*)
7	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[Issue Date/Not Applicable/*specify*]
8	Maturity Date:		[None/*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*] (*note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to specify the Interest Payment Date falling in or nearest to the relevant month and year*)
9	Interest Basis:		[[•] per cent. Fixed Rate [from [•] to [•]]]

3 If the Specified Denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower nominal amount (for example EUR1,000), insert the following: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]".

4 Notes (including Notes denominated in pounds sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of GBP100,000 (or its equivalent in other currencies).

5 Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or its equivalent in other currencies).

6 Only relevant for Subordinated Notes.

		[[specify reference rate] +/-[•] per cent. Floating Rate] [from [•] to [•]]
		[Zero Coupon]
		[Other (*specify*)]
		(further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par]
		[Instalment]
11	Change of Interest or Redemption:	[Other (*specify*)]
		[Not Applicable/*specify details of any Payment Basis: provision for convertibility of Notes into another interest or redemption/payment basis*]
12	Put/Call Options:	[Investor Put]
		[Issuer Call (further particulars specified below)
		[The Issuer shall not redeem any of the Subordinated Notes unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong or the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto][7]]
13	(i) Status of the Notes:	[Senior Notes/Subordinated Notes]
	(ii) [Qualification of the Notes:]	[Not Applicable/The Subordinated Notes are intended to qualify as Tier 2 Capital under the Banking (Capital) Rules (Cap. 155L) of Hong Kong (see further Item [23] below)]
	(iii) [Date of internal approvals for issuance of Notes obtained:]	[Not Applicable/*specify details where Board (or similar) authorisation is required for the particular tranche of Notes*]
14	Listing:	[Hong Kong/specify other/Not listed] (for Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)
15	Method of distribution:	[Syndicated/Non-syndicated]

7 Only relevant for Subordinated Notes.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:		[Applicable/Not Applicable/Applicable from and including the [Issue Date/Interest Payment Date falling on [•]] to but excluding the [Interest Payment Date falling on [•]/Maturity Date]] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	(a) [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Period:	[Each period from and including the [Issue Date]/[Interest Payment Date falling on [•]] to (but excluding) the [subsequent Interest Payment Date falling on [•]/[Maturity Date]], except that the first Interest Period will commence on (and include) the [Issue Date]/[the Interest Payment Date falling on [•]] and the final Interest Period shall end (but exclude) the [Interest Payment Date falling on [•]]/[Maturity Date]]
	(iii)	Interest Payment Date(s):	[•] in each [month]/[year][8] [commencing on the [Issue Date/Interest Payment Date falling on [•]] and ending on the [Interest Payment Date falling on [•]/Maturity Date]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
	(iv)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)/not adjusted]
	(v)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[9][, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority]

8 Note that for certain Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong [and [c]]".

9 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(vi)	Broken Amount(s):	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*) [[•] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority, payable on the Interest Payment Date falling [in/on] [•]]
(vii)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or Actual/360 or Actual/365 (Fixed)[10] or [*specify other*]]
(viii)	Determination Dates:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*) [[•] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
(ix)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]

17	Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Interest Payment Date falling on [•]] to but excluding the [Interest Payment Date falling on [•]/Maturity Date]] (*if not applicable, delete the remaining subparagraphs of this paragraph*)

(i)	Interest Period(s):	[Each period from and including the [Issue Date]/[Interest Payment Date falling on [•]] to (but excluding) the [subsequent Interest Payment Date falling on [•]/[Maturity Date]], except that the first Interest Period will commence on (and include) the [Issue Date]/[the Interest Payment Date falling on [•]] and the final Interest Period shall end (but exclude) the [Interest Payment Date falling on [•]]/[Maturity Date].]
(ii)	Specified Interest Payment Date(s):	[•] in each [month]/[year] [commencing on the [Issue Date/Interest Payment Date falling on [•]] and ending on the [Interest Payment Date falling on [•]/Maturity Date]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]

10 Applicable to Hong Kong denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

(iii)	Interest Period End Date:	[•] (*Not applicable unless different from Interest Payment Date*)
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[•]
(vii)	Screen Rate Determination:	
	• Reference Bank:	[•]
	• Reference Rate:	[•]
	• Interest Determination Date(s):	[•]
	• Relevant Screen Page:	[•]
(viii)	SOFR:	[Applicable/Not Applicable]
	• SOFR Benchmark:	[Simple SOFR Average/Compounded Daily SOFR/SOFR Index]
	• Compounded Daily SOFR:	[Not Applicable/SOFR Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout] *(Only applicable in the case of Compounded Daily SOFR)*
	• Lookback Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Lag. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
	• SOFR Observation Shift Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Observation Shift or SOFR Index. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*

•	Interest Payment Delay Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Payment Delay. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
•	SOFR Rate Cut-Off Date:	[Not Applicable/The day that is the [•] U.S. Government Securities Business Day(s) prior to the end of each Interest Accrual Period] *(Only applicable in the case of Simple SOFR Average, Compounded Daily SOFR: SOFR Payment Delay or Compounded Daily SOFR: SOFR Lockout)*
•	SOFR $Index_{Start}$:	[Not Applicable/[*SOFR Index value on the date that is [•] U.S. Government Securities Business Day(s) prior to the first day of the relevant Interest Accrual Period*]] *(Only applicable in the case of SOFR Index. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
•	SOFR $Index_{End}$:	[Not Applicable/[*the SOFR Index value on the date that is [•] U.S. Government Securities Business Day(s) prior to the Interest Period End Date for the relevant Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date)*]] *(Only applicable in the case of SOFR Index. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
(ix)	ISDA Determination:	
•	ISDA Definitions:	[2006 ISDA Definitions/2021 ISDA Definitions]
•	Floating Rate Option:	[•]
•	Designated Maturity:	[•]
•	Reset Date:	[•]
(x)	Margin(s):	[+/-][•] per cent. per annum
(xi)	Minimum Rate of Interest:	[•] per cent. per annum
(xii)	Maximum Rate of Interest:	[•] per cent. per annum
(xiii)	Day Count Fraction:	[•]
(xiv)	Benchmark discontinuation and fall back provisions:	[•]

	• Benchmark Discontinuation (general) (Condition 5(i)):	[Applicable/Not Applicable]
	• Benchmark Discontinuation (SOFR) (Condition 5(j)):	[Applicable/Not Applicable]
	• Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating Interest on Floating Rate Subordinated Notes, if different from those set out in the Conditions:	[•]
18	Zero Coupon Note Provisions:	[Applicable/Not Applicable] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Amortisation Yield:	[•] per cent. per annum
	(ii) Day Count Fraction:	[•]

PROVISIONS RELATING TO REDEMPTION

19	Call Option:	[Applicable/Not Applicable] (*if applicable, specify/include details. If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[•][, subject to the prior written consent of the Monetary Authority][11]
	(ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	[•] per Calculation Amount[, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority][12]
	(iii) If redeemable in part:	
	• Minimum Redemption Amount:	[•] per Calculation Amount

11 Only relevant for Subordinated Notes.

12 Only relevant for Subordinated Notes.

13 Only relevant for Subordinated Notes.

	• Maximum Redemption Amount:	[•] per Calculation Amount
	(iv) Notice period:	[•]
20	Put Option:	[Applicable/Not Applicable][, subject to the Prior written consent of the Monetary Authority][13] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount[, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority][14]
	(iii) Notice period:	[•]
21	Final Redemption Amount of each Note:	[•] per Calculation Amount[, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority]
22	Early Redemption Amount:	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Note Conditions):	[•][, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority][15]

PROVISIONS RELATING TO NON-VIABILITY AND LOSS ABSORPTION OF SUBORDINATED NOTES

23	Loss Absorption Option:	[Not Applicable/Applicable][16] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Suspension Period:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]
	(b) Non-Viability Event:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]

14 Only relevant for Subordinated Notes.

15 Only relevant for Subordinated Notes.

16 Only relevant for Subordinated Notes.

(c)	Non-Viability Event Notice:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]
(d)	Write-off:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]
(e)	Others:	[Not Applicable/*give details e.g. Parity Obligations, Junior Obligations*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24 Form of Notes:

Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

(*N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.*)

Registered Notes:

[Global Certificate (U.S.$/EUR [•] nominal amount) registered in the name of [a nominee for a common depositary for Euroclear and Clearstream/[the Monetary Authority as operator of the CMU]]

25 Financial Centre(s) or other special provisions relating to Payment Dates:

Financial Centre(s) are: [•][17]

[*give details*] *(note that this paragraph relates to the date and place of payment)*

26 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):

[Applicable/Not Applicable (*if Applicable, give details*)]

17 Set out all applicable Financial Centre(s).

27	Details relating to Instalment Notes: amount of each instalment (Instalment Amount), date on which each payment is to be made (Instalment Date):	[Applicable/Not Applicable (*if Applicable, give details*)]
28	Other terms or special conditions:	[Applicable/Not Applicable (*give details e.g. if any additional loss absorption details to be set out in schedule to the Pricing Supplement*)]

DISTRIBUTION

29	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Notes after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealers or its affiliates is obligated to do so or to make a market for the Notes]
	(ii)	Stabilisation Manager (if any):	[Not Applicable/*give name*]
30		If non-syndicated, name of Dealer:	[Not Applicable/*give name*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Notes after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealers or its affiliates is obligated to do so or to make a market for the Notes]
31		U.S. Selling Restriction:	[TEFRA D/TEFRA C/TEFRA not applicable] Regulation S (Category 1) (*TEFRA not applicable for Bearer Notes with a maturity of one year or less or Registered Notes*) (*Where TEFRA D is applicable, a Bearer Note must be issued in the form of a Temporary Note exchangeable upon a U.S. tax certification for a Permanent Global Note or a Definitive Note*)
32	(i)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified*)

	(ii) Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified*)
33	Additional selling restrictions:	[Not Applicable/*give details*]

HONG KONG SFC CODE OF CONDUCT

34	Rebates:	[A rebate of [•] bps is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
35	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide]*/[Not Applicable]
36	Marketing and Investor Targeting Strategy:	[As indicated in the Offering Circular] or [*Describe if different from the programme Offering Circular*]

OPERATIONAL INFORMATION

37	ISIN Code:	[•]
38	Common Code:	[•]
39	CMU Instrument Number:	[•]
40	Legal Entity Identifier (LEI):	549300UE27D3HDTZET39
41	Any clearing system(s) other than The Central Money markets Unit Service and/or Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
42	Delivery:	Delivery [against/free of] payment
43	Additional Paying Agent(s) (if any):	[•]

GENERAL

44	Governing Law:	Hong Kong law

45	Rating[s]:	The Notes to be issued have [not] been rated: [S&P: [•]]; [Moody's: [•]]; [Fitch: [•]]; [Other: [•]] (*the above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*)

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISATION

In connection with this issue, [*insert name(s) of Stabilisation Manager*] (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue [if listed, and admitted to trading, on the Hong Kong Stock Exchange] of the Notes described herein pursuant to the U.S.$2,000,000,000 Medium Term Note and Perpetual Capital Securities Programme of the Issuer.]

[MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or the Group since [*insert date of last audited full year or interim financial statements*] and no material adverse change in the financial position or prospects of the Issuer or the Group since [*insert date of last published audited annual financial statements*].]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of Chong Hing Bank Limited:

By: ________________________________

Duly authorised

FORM OF PRICING SUPPLEMENT IN RELATION TO THE PERPETUAL CAPITAL SECURITIES

[EU MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Perpetual Capital Securities has led to the conclusion that: (i) the target market for the Perpetual Capital Securities is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**EU MiFID II**")] [EU MiFID II]; and (ii) all channels for distribution of the Perpetual Capital Securities to eligible counterparties and professional clients are appropriate. [Consider any negative target market.] Any person subsequently offering, selling or recommending the Perpetual Capital Securities (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Perpetual Capital Securities (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Perpetual Capital Securities has led to the conclusion that: (i) the target market for the Perpetual Capital Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Perpetual Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Perpetual Capital Securities (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Perpetual Capital Securities (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**EU PRIIPs Regulation**") for offering or selling the Perpetual Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Perpetual Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK**

PRIIPs Regulation") for offering or selling the Perpetual Capital Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Perpetual Capital Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Perpetual Capital Securities are prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).][18]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), the "**Professional Investors**") only.

Notice to Hong Kong investors – The Issuer confirms that the Perpetual Capital Securities are intended for purchase by Professional Investors only and the Perpetual Capital Securities (to the extent the Perpetual Capital Securities are to be listed on the Hong Kong Stock Exchange) will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Perpetual Capital Securities are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Perpetual Capital Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Perpetual Capital Securities or the Issuer (as defined below) or the Issuer and its subsidiaries (the "Group") or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.][19]

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18 To remove if sales are made to institutional investors or accredited investors in Singapore only.

19 For Perpetual Capital Securities to be listed on The Stock Exchange of Hong Kong Limited. To be confirmed by listing agent following review by The Stock Exchange of Hong Kong Limited.

Pricing Supplement dated [•]

CHONG HING BANK LIMITED

Issue of [Aggregate Nominal Amount of Tranche] [Title of Perpetual Capital Securities] under the U.S.$2,000,000,000

Medium Term Note and Perpetual Capital Securities Programme

This document constitutes the Pricing Supplement relating to the issue of the Perpetual Capital Securities described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Perpetual Capital Securities Conditions (the "**Conditions**") set forth in the Offering Circular dated on or about 12 September 2025 [and the supplemental Offering Circular dated [•]]. This Pricing Supplement contains the final terms of the Perpetual Capital Securities and must be read in conjunction with such Offering Circular [as so supplemented]. [This Pricing Supplement, together with the information set out in Schedule [•] to this Pricing Supplement, supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein.]

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date:*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Perpetual Capital Securities (the "**Conditions**") set forth in the Offering Circular dated on or about [•]. This Pricing Supplement contains the final terms of the Perpetual Capital Securities and must be read in conjunction with the Offering Circular dated on or about 12 September 2025 [and the supplemental Offering Circular dated [•]], save in respect of the Conditions which are extracted from the Offering Circular dated on or about [•] and are attached hereto.] Principal and/or interest of the Perpetual Capital Securities may be written-off upon the occurrence and continuance of a Non-Viability Event in accordance with the terms set out in Condition 7 and paragraph [24] below. In particular, investors in the Perpetual Capital Securities should read the section titled "*Investment Considerations*" contained therein, including but not limited to the risk factor titled "*The terms of the Perpetual Capital Securities may contain non-viability loss absorption provisions under which the Perpetual Capital Securities may be written-off*", which apply to the issue of Perpetual Capital Securities described herein. Full information on the Issuer and the offer of the Perpetual Capital Securities is only available on the basis of the combination of this Pricing Supplement[,/and the Offering Circular [and the Supplemental Offering Circular].]

*[Include whichever of the following apply or specify as "**Not Applicable**" (N/A). Note that the numbering should remain as set out below, even if "**Not Applicable**" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

1	Issuer:		Chong Hing Bank Limited
2	(i)	Series Number:	[•]
	(ii)	Tranche Number:	[•]
	(iii)	[Date on which the Perpetual Capital Securities become fungible:]	[The Perpetual Capital Securities will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/the date that is 40 days after the Issue Date]/Not Applicable] (*if fungible with an existing Series, details of that Series, including the date on which the Perpetual Capital Securities become fungible*)

3	Specified Currency or Currencies:		[•]
4	Aggregate Nominal Amount:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
5	(i)	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued Distributions from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii)	[Net Proceeds:]	[[•] (*required only for listed issues*)]
6	(i)	Specified Denominations:[20, 21, 22]	[•] (*notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum specified denomination for any series or tranche of Perpetual Capital Securities intending to qualify as Additional Tier 1 capital under the Banking Capital Regulations shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, EUR200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue*)
	(ii)	Calculation Amount:	[•], subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority (*the applicable Calculation Amount will be: (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Perpetual Capital Securities; or (ii) if there are several Specified Denominations or the circumstances referred to in Footnote [3] apply, the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations*)
7	(i)	Issue Date:	[•]
	(ii)	Distribution Commencement Date:	[Issue Date/Not Applicable/*specify*]

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20 If the Specified Denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower nominal amount (for example EUR1,000), insert the following: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Perpetual Capital Securities in definitive form will be issued with a denomination above [EUR199,000]".

21 Perpetual Capital Securities (including Perpetual Capital Securities denominated in pounds sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of GBP100,000 (or its equivalent in other currencies).

22 Perpetual Capital Securities to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or its equivalent in other currencies).

8	Distribution		
	(i)	Distribution Basis:	[[•] per cent. Fixed Rate [from [•] to [•]]] [[*specify reference rate*] +/-[•] per cent. Floating Rate] [from [•] to [•]] [Other (*specify*)] (further particulars specified below) Payment of any Distribution is subject to the terms and conditions specified in Condition 5
	(ii)	Distribution Stopper (Condition [5(d)]):	[Applicable/Not Applicable]
9	Redemption/Payment Basis:		[Redemption at par] [Other (*specify*)]
10	Change of Distribution or Redemption:		[Not Applicable/*specify details of any Payment Basis: provision for convertibility of Perpetual Capital Securities into another Distribution or redemption/payment basis*]
11	Call Options:		[Issuer Call (further particulars specified below) The Issuer shall not redeem any of the Perpetual Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong or the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto]
12	(i)	Qualification of the Perpetual Capital Securities:	[The Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital under the Banking (Capital) Rules (Cap. 155L) of Hong Kong (see further Item [20] below)]
	(iii)	Date of internal approvals for issuance of Perpetual Capital Securities obtained:	[Not Applicable/*specify details where Board (or similar) authorisation is required for the particular tranche of Perpetual Capital Securities*]
13	Listing:		[Hong Kong/*specify other/Not listed*] *(for Perpetual Capital Securities to be listed on the Hong Kong Stock Exchange], insert the expected effective listing date of the Perpetual Capital Securities*)
14	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO DISTRIBUTION (IF ANY) PAYABLE

15	Fixed Rate Perpetual Capital Security Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Distribution Payment Date falling on [•]] to but excluding the [Distribution Payment Date falling on [•]] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Rate[(s)] of Distribution:	
(a)	Initial Distribution Rate:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(b)	Reset:	[Applicable/Not Applicable]
(c)	First Reset Date:	[•]
(d)	Reset Date[s]:	The First Reset Date and each date falling every [•] after the First Reset Date
(e)	Relevant Rate:	[•]
(f)	Initial Spread:	[•]
(ii)	Distribution Period:	[Each period from and including the [Issue Date]/[Distribution Payment Date falling on [•]] to (but excluding) the [subsequent Distribution Payment Date falling on [•]], except that the first Distribution Period will commence on (and include) the [Issue Date]/[Distribution Payment Date falling on [•]] and the final Distribution Period shall end (but exclude) the [Distribution Payment Date falling on [•]]]
(iii)	Distribution Payment Date(s):	[•] in each year [commencing on the [Issue Date/Distribution Payment Date falling on [•]] and ending on the [Distribution Payment Date falling on [•]]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
(iv)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]

(v)	Fixed Distribution Amount[(s)]:	[From (and including) the Distribution Commencement Date to (but excluding) the First Reset Date, [•] per Calculation Amount[23], subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority From (and including) the First Reset Date, the respective amounts to be determined pursuant to Item 14(i)(b) above, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority]
(vi)	Broken Amount(s):	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*) [[•] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority, payable on the Distribution Payment Date falling [in/on] [•]]
(vii)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
(viii)	Determination Dates:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*) [[•] in each year (insert regular Distribution payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))[24]]

23 Note that for certain Hong Kong dollar denominated Fixed Rate Perpetual Capital Securities and Renminbi denominated Fixed Rate Perpetual Capital Securities the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong [and [c]]".

24 For Renminbi or Hong Kong dollar denominated Fixed Rate Perpetual Capital Securities where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Perpetual Capital Securities and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Perpetual Capital Securities, being rounded upwards". Applicable to Hong Kong denominated Fixed Rate Perpetual Capital Securities and Renminbi denominated Fixed Rate Perpetual Capital Securities.

	(ix)	Other terms relating to the method of calculating Distribution for Fixed Rate Perpetual Capital Securities:	[Not Applicable/give details]
16		Floating Rate Perpetual Capital Security Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Distribution Payment Date falling on [•]] to but excluding the [Distribution Payment Date falling on [•]]] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Distribution Period(s):	[Each period from and including the [Issue Date]/[Distribution Payment Date falling on [•]] to (but excluding) the [subsequent Distribution Payment Date falling on [•]], except that the first Distribution Period will commence on (and include) the [Issue Date]/[the Distribution Payment Date falling on [•] and the final Distribution Period shall end (but exclude) the [Distribution Payment Date falling on [•]]]
	(ii)	Specified Distribution Payment Date(s):	[•] in each year [commencing on the [Issue Date/Distribution Payment Date falling on [•]] and ending on the [Distribution Payment Date falling on [•]]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
	(iii)	Distribution Period End Date:	[•] (*Not applicable unless different from Distribution Payment Date*)
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(v)	Manner in which the Rate(s) of Distribution is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
	(vi)	Party responsible for calculating the Rate(s) of Distribution and Distribution Amount(s) (if not the [Agent]):	[•]
	(vii)	Screen Rate Determination:	
		• Reference Rate:	[•]
		• Distribution Determination Date(s):	[•]
		• Relevant Screen Page:	[•]
		• Reference Banks:	[•]

(viii) SOFR:	[Applicable/Not Applicable]
• SOFR Benchmark:	[Simple SOFR Average/Compounded Daily SOFR/SOFR Index]
• Compounded Daily SOFR:	[Not Applicable/SOFR Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout] *(Only applicable in the case of Compounded Daily SOFR)*
• Lookback Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Lag. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
• SOFR Observation Shift Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Observation Shift or SOFR Index. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
• Distribution Payment Delay Days:	[Not Applicable/[•] U.S. Government Securities Business Day(s)] *(Only applicable in the case of SOFR Payment Delay. If applicable, the number of U.S. Government Securities Business Days shall be no less than five (5))*
• SOFR Rate Cut-Off Date:	[Not Applicable/The day that is the [•] U.S. Government Securities Business Day(s) prior to the end of each Distribution Accrual Period] *(Only applicable in the case of Simple SOFR Average, Compounded Daily SOFR: SOFR Payment Delay or Compounded Daily SOFR: SOFR Lockout)*
• SOFR $\text{Index}_{\text{Start}}$:	[Not Applicable/[*SOFR Index value on the date that is [•] U.S. Government Securities Business Day(s) prior to the first day of the relevant Distribution Accrual Period*]]
• SOFR $\text{Index}_{\text{End}}$:	[Not Applicable/[*the SOFR Index value on the date that is [•] U.S. Government Securities Business Day(s) prior to the Distribution Period End Date for the relevant Distribution Accrual Period (or in the final Distribution Accrual Period, the Perpetual Capital Securities Optional Redemption Date on which the Issuer elects to redeem the Perpetual Capital Securities)*]]

(ix)	ISDA Determination:	
	• ISDA Definitions:	[2006 ISDA Definitions/2021 ISDA Definitions]
	• Floating Rate Option:	[•]
	• Designated Maturity:	[•]
	• Reset Date:	[•]
(x)	Margin(s):	[+/-][•] per cent. per annum[25]
(xi)	Minimum Rate of Distribution:	[•] per cent. per annum
(xii)	Maximum Rate of Distribution:	[•] per cent. per annum
(xiii)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or Actual/360 or Actual/365 (Fixed)[26] or [specify other]]
(xiv)	Benchmark discontinuation and fall back provisions:	[•]
	• Benchmark Discontinuation (general) (Condition 4(i)):	[Applicable/Not Applicable]
	• Benchmark Discontinuation (SOFR) (Condition 4(j)):	[Applicable/Not Applicable]
	• Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating Distribution on Floating Rate Perpetual Capital Securities, if different from those set out in the Conditions:	[•]

25 Where there are different margins for different Distribution Accrual Periods, no step-up in the Rate of Distribution shall be permitted.

26 Applicable to Hong Kong denominated Perpetual Capital Securities and Renminbi denominated Perpetual Capital Securities.

PROVISIONS RELATING TO REDEMPTION

17	Call Option:	[Applicable/Not Applicable]
		(*if applicable, specify/include details. If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[•], subject to the prior written consent of the Monetary Authority
	(ii) Optional Redemption Amount(s) of each Perpetual Capital Security and specified denomination method, if any, of calculation of such amount(s):	[•] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority
	(iii) If redeemable in part:	
	• Minimum Redemption Amount:	[•] per Calculation Amount
	• Maximum Redemption Amount:	[•] per Calculation Amount
	(iv) Notice period:	[•]
18	Final Redemption Amount of each Perpetual Capital Security:	[•] per Calculation Amount
19	Early Redemption Amount:	[•]/[Not Applicable]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•], subject to adjustment following the occurrence of a Non-Viability Event or resulting from the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority

PROVISIONS RELATING TO NON-VIABILITY AND LOSS ABSORPTION OF THE PERPETUAL CAPITAL SECURITIES

20	Loss Absorption Option:	Applicable
	(a) Suspension Period:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]
	(b) Non-Viability Event:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]
	(c) Non-Viability Event Notice:	[Not Applicable/Applicable, as described in the Conditions/ *give details*]

(d)	Write-off:	[Not Applicable/Applicable, as described in the Conditions/ give details]
(e)	Others:	[Not Applicable/give details e.g. Parity Obligations, Junior Obligations]

GENERAL PROVISIONS APPLICABLE TO THE PERPETUAL CAPITAL SECURITIES

21	Form of Perpetual Capital Securities:	**Registered Perpetual Capital Securities:** Global Certificate
22	Financial Centre(s) or other special provisions relating to Payment Dates:	Financial Centre(s) are: [•][27] [*give details*] *(note that this paragraph relates to the date and place of payment)*
23	Other terms or special conditions:	[Not Applicable/*give details e.g. if any additional loss absorption details to be set out in schedule to the Pricing Supplement*]

DISTRIBUTION

24 (i)	If syndicated, names of Managers:	[Not Applicable/*give names*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Perpetual Capital Securities after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealers or its affiliates is obligated to do so or to make a market for the Perpetual Capital Securities]
(ii)	Stabilisation Manager (if any):	[Not Applicable/*give name*]
25	If non-syndicated, name of Dealer:	[Not Applicable/*give name*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Perpetual Capital Securities after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealers or its affiliates is obligated to do so or to make a market for the Perpetual Capital Securities]
26	U.S. Selling Restriction:	[TEFRA not applicable] Regulation S (Category 1)
27 (i)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]

27 Set out all applicable Financial Centre(s).

		(*If the Perpetual Capital Securities clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Perpetual Capital Securities may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified*)
	(ii) Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If the Perpetual Capital Securities clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Perpetual Capital Securities may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified*)
28	Additional selling restrictions:	[Not Applicable/*give details*]

HONG KONG SFC CODE OF CONDUCT

29	Rebates	[A rebate of [•] bps is being offered by the Issuer to all private banks for orders they place (other than in relation to Perpetual Capital Securities subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Perpetual Capital Securities distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
30	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide*]/[Not Applicable]
31	Marketing and Investor Targeting Strategy	[As indicated in the Offering Circular] or [*Describe if different from the programme Offering Circular*]

OPERATIONAL INFORMATION

32	ISIN Code:	[•]
33	Common Code:	[•]
34	CMU Instrument Number:	[•]
35	Legal Entity Identifier (LEI):	549300UE27D3HDTZET39

36	Any clearing system(s) other than The Central Moneymarkets Unit Service and/or Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
37	Delivery:	Delivery [against/free of] payment
38	Additional Paying Agent(s) (if any):	[•]

OPERATIONAL INFORMATION

39	Governing Law:	Hong Kong law
40	Rating[s]:	The Perpetual Capital Securities to be issued have [not] been rated: [S&P: [•]]; [Moody's: [•]]; [Fitch: [•]]; [Other: [•]] (*the above disclosure should reflect the rating allocated to Perpetual Capital Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*)

[USE OF PROCEEDS

*Give details if different from the "**Use of Proceeds**" section in the Offering Circular.*]

[STABILISATION

In connection with this issue, [*insert name of Stabilisation Manager*] (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Perpetual Capital Securities or effect transactions with a view to supporting the market price of the Perpetual Capital Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Perpetual Capital Securities is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Perpetual Capital Securities and 60 days after the date of the allotment of the relevant Tranche of Perpetual Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue [if listed, and admitted to trading on the Hong Kong Stock Exchange] of the Perpetual Capital Securities described herein pursuant to the U.S.$2,000,000,000 Medium Term Note and Perpetual Capital Securities Programme of the Issuer.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of Chong Hing Bank Limited:

By: ________________________________

Duly authorised

REGULATION AND SUPERVISION IN HONG KONG

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to the Monetary Authority. The Banking Ordinance provides that only authorized institutions (that is, banks which have been granted a banking licence ("**licence**") by the Monetary Authority) may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("**authorized institutions**").

Supervision of Authorized Institutions in Hong Kong

The provisions of the Banking Ordinance are implemented by the Monetary Authority, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The Monetary Authority supervises authorized institutions through, *inter alia*, a regular information gathering process, the main features of which are as follows:

(1) each authorized institution must submit a monthly return to the Monetary Authority setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the Monetary Authority has the right to allow returns to be made at less frequent intervals;

(2) the Monetary Authority may order an authorized institution, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the authorized institution concerned. Such information shall be submitted within such period and in such manner as the Monetary Authority may require. The Monetary Authority may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the authorized institution's auditors (approved by the Monetary Authority for the purpose of preparing the report) confirming compliance with the Banking Ordinance and certain matters;

(3) authorized institutions may be required to provide information to the Monetary Authority regarding companies in which they have an aggregate 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a common name or a concert party arrangement to promote the authorized institution's business;

(4) in addition, authorized institutions are obliged to report to the Monetary Authority immediately of their likelihood of becoming unable to meet their obligations or of the commencement of material civil proceedings applicable only to authorized institutions incorporated in Hong Kong;

(5) the Monetary Authority may direct an authorized institution to appoint an auditor to report to the Monetary Authority on the state of affairs and/or profit and loss of the authorized institution or the adequacy of the systems of control of the authorized institution or other matters as the Monetary Authority may reasonably require;

(6) the Monetary Authority may, at any time, with or without prior notice, examine the books, accounts and transactions of any authorized institution, and in the case of an authorized institution incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution. Such inspections are carried out by the Monetary Authority on a regular basis; and

(7) authorized institutions are required to give written notice to the Monetary Authority immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office.

Exercise of Powers over Authorized Institutions

The Monetary Authority may, after consultation with the Financial Secretary, exercise certain powers over the conduct of authorized institutions in any of the following circumstances:

(1) when an authorized institution informs the Monetary Authority that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;

(2) when an authorized institution becomes unable to meet its obligations or suspends payment;

(3) if, after an examination or investigation, the Monetary Authority is of the opinion that an authorized institution:

    (a) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of multi-purpose cards issued by it or the issue of which is facilitated by it;

    (b) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;

    (c) has contravened or failed to comply with any of the provisions of the Hong Kong Banking Ordinance; or

    (d) has contravened or failed to comply with any condition attached to its licence or certain conditions in the Banking Ordinance; and

(4) where the Financial Secretary advises the Monetary Authority that he considers it in the public interest to do so.

In any of the circumstances described above, the Monetary Authority, after consultation with the Financial Secretary, may exercise any of the following powers:

(1) to require the authorized institution, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its business and property as the Monetary Authority may consider necessary;

(2) to direct the authorized institution to seek advice on the management of its affairs, business and property from an adviser appointed by the Monetary Authority;

(3) to assume control of and carry on the business of the authorized institution, or direct some other person to assume control of and carry on the business of the authorized institution; or

(4) to report to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the authorized institution).

Revocation and Suspension of Banking Licence

The Monetary Authority also has powers to recommend the revocation or suspension of a licence. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the authorized institution concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include the following:

(1) the authorized institution no longer fulfils the criteria for authorisation and the requirements for registration;

(2) the authorized institution is likely to be unable to meet its obligations or to suspend payment or proposes to make, or has made, any arrangement with its creditors or is insolvent;

(3) the authorized institution has failed to provide material information required under the Banking Ordinance or has provided false information;

(4) the authorized institution has breached a condition attached to its licence;

(5) a person has become or continues to be a controller or chief executive or director of the authorized institution after the Monetary Authority has made an objection;

(6) the interests of the depositors require that the licence be revoked; or

(7) the authorized institution is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the Monetary Authority guidelines) which should not be engaged in.

Revocation or suspension of a licence means that the authorized institution can no longer conduct banking business (for the specified period in the case of a suspension).

Principal Obligations of Authorized Institutions

The obligations of an authorized institution under the Banking Ordinance, which are enforced by the Monetary Authority through the system described above, include, but are not limited to, the following:

Capital Adequacy

An authorized institution incorporated in Hong Kong must at all times maintain a total capital adequacy ratio of at least 8.0 per cent. (excluding capital buffers), calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted assets as more fully described below. In relation to an authorized institution with subsidiaries, the Monetary Authority may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the authorized institution as may be specified by the Monetary Authority. The Monetary Authority may, after consultation with the authorized institution concerned, increase the ratio for any particular authorized institution. An authorized institution is under a duty to inform the Monetary Authority immediately of a failure to maintain the required capital adequacy ratio and to provide the Monetary Authority with such particulars as it may require. It is an indictable offence not to do so, and the Monetary Authority is entitled to prescribe remedial action.

The capital base of an authorized institution is, broadly speaking but not limited to, all its paid-up capital and reserves, its profit and loss account including its current year's profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of real property.

The risk-weighted exposure is determined by:

(1) multiplying risk-weight factors to the book value of various categories of assets (including but not limited to notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);

(2) multiplying the credit conversion factors to various off-balance sheet items (including but not limited to direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;

(3) aggregating the amounts determined pursuant to (1) and (2); and

(4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the authorized institution.

The capital adequacy standards described above are commonly known as Basel II, and there are four approaches under Basel II to calculate credit risks, namely the basic approach, the standardised approach, foundation internal rating based approach and the advanced internal ratings based approach. authorized institutions in Hong Kong under Basel II can choose either one out of the four approaches, with the foundation internal rating based approach and advanced internal rating based approach requiring approval from the Monetary Authority.

In December 2010 and January 2011, the Basel Committee issued further capital requirements designed to raise the quality, consistency and transparency of banks' capital base and new global liquidity standards. These requirements are collectively known as Basel III. Among other things, Basel III will increase the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2 per cent. to 4.5 per cent. and the Tier 1 capital requirements rising from 4 per cent. to 6 per cent. The total minimum capital requirement remains unchanged at 8 per cent. (excluding capital buffers).

To implement the final phase of the Basel III reforms, certain amendments in the Banking (Capital) (Amendment) Rules 2023 took effect on 1 January 2025. The amendments in the Banking (Capital) (Amendment) Rules 2023 are included to better address risk exposure of banks, and to introduce the option of a positive neutral countercyclical capital buffer to ensure the banking system has sufficient releasable buffer against possible system-wide shocks.

The amendments made to the Banking (Capital) (Amendment) Rules also focuses on the way a bank's risk-weighted amount of exposure ("**RWA**") is determined for their capital requirements:

- *Revised credit risk framework* – the two existing methodologies for calculating risk-based capital requirements for credit risk were substantially revised. The revised standardised approach refines the risk calibration of the existing approach and reduces its reliance on the use of external credit rating for risk-weighting purpose, requiring banks to perform their own due diligence on their exposures. The revised internal ratings-based approach introduces constraints on its scope of application, minimum "floor" value for bank estimates, and greater specification of related estimation practices of banks.

- *Revised market risk and credit valuation adjustment ("**CVA**") risk framework* – the revised market risk framework involves a comprehensively updated standardised approach, the standardised (market risk) approach. Such approach involves a more extensive use of risk sensitivities as inputs to market risk capital charge calculation and is designed to better reflect the risks of complex trading book exposures. While internal models approach continues to be an option for banks, their uses become subject to stricter qualifying criteria. The updates to the market risk framework are complemented with revisions to the framework for CVA risk.

- *Revised operational risk framework* – the existing approaches would be replaced with a single revised standardised approach with enhanced risk-sensitivity.

- *Output floor* – a capital output floor is introduced to ensure that banks' aggregate capital requirement generated by internal models must be no lower than 72.5% of such requirement calculated by using solely the revised standardised approaches.

Certain amendments in the Banking (Disclosure) (Amendment) Rules 2023 took effect on 1 January 2025 to implement the new and revised disclosure requirements associated with the Basel III revised capital standards, with standard specification to ensure that banks make disclosure in a consistent manner to facilitate comparison across banks and jurisdictions.

The Hong Kong "Resolution Regime"

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorized institutions and other within scope financial institutions in Hong Kong as may be designated by the relevant resolution authorities, which includes the Bank as the issuer of the Instruments. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorized institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Instruments or the principal amount of, or interest on, the Instruments, and powers to amend or alter the contractual provisions of the Instruments, all of which may adversely affect the value of the Instruments, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Instruments (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules, such as the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (Cap. 628B) of Hong Kong and the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules (Cap 628C) of Hong Kong. Therefore, the Issuer is unable to assess the full impact of FIRO on the financial system generally, the Issuer's counterparties, the Issuer, any of its consolidated subsidiaries, its operations and/or its financial position.

Liquidity

Liquidity of an authorized institution is its ability to meet payment obligations as they fall due. Banks must maintain sufficient liquidity to handle daily operational activities such as cash withdrawal from depositors, interbank clearing, repayment of debts, etc. the liquidity requirements applicable to authorized institutions are provided mainly in the Banking (Liquidity) Rules (Cap. 155Q) of Hong Kong ("**BLR**") issued by the Monetary Authority under section 97H(1) of the Banking Ordinance.

Under the BLR, authorized institutions designated by the Monetary Authority as "category 1 institutions" are required to comply with the requirements relating to the liquidity coverage ratio and the net stable funding ratio. Usually category 1 institutions are either having significant international exposures or being significant to the general stability of the local banking sector having regard to their size or complexity of business operations. Category 1 institutions are required to maintain a liquidity coverage ratio not less than 100.0 per cent. and net stable funding ratio not less than 100.0 per cent.

Other authorized institutions are regarded as "category 2 institutions", which must comply with the requirements relating to the local liquidity maintenance ratio. Category 2A institutions in category 2 institutions must also comply with the requirements relating to the local core funding ratio. The designation of category 2A institutions are based on the business size and the liquidity risk associated with the institution. Category 2 institutions are required to maintain a liquidity maintenance ratio not less than 25.0 per cent., whereas category 2A institutions are required to maintain a liquidity maintenance ratio not less than 25.0 per cent. and local core funding ratio of not less than 75.0 per cent.

Financial Exposure to Any One Customer

The financial exposure of an authorized institution incorporated in Hong Kong to any one person or group of related persons must not (subject to certain exceptions) exceed 25.0 per cent. of its Tier 1 capital. Subject to certain exclusions, the authorized institution's financial exposure to any one person or group of connected persons is taken to be the aggregate of:

(1) all advances, loans and credit facilities granted to that person or group;

the value of the authorized institution's holdings of shares, debentures and other debt securities issued by that person or group; and

(2) the principal amount, multiplied by a factor to be specified by the Monetary Authority, for off-balance sheet items resulting from transactions between the authorized institution and that person or group.

For these purposes, persons shall be treated as related if one company is the subsidiary of another, they have a common holding company, they have a common controller (not being a company) or if one (not being a company) is a controller of another (being a company).

The calculation of financial exposure does not include financial exposure to the Hong Kong government, any other government (except those not being accepted by the Monetary Authority), authorized institutions, banks incorporated outside Hong Kong (in the opinion of the Monetary Authority that being adequately supervised) or multilateral development bank; or any financial exposure accepted by the Monetary Authority, either generally or in any particular case to the extent it is secured by a cash deposit, a guarantee, an undertaking, securities or letter of comfort.

The Issuer's aggregate non-exempted credit exposures that are equal to or greater than 10.0 per cent. of its Tier 1 capital must be within the Monetary Authority's clustering limit approved by its Board of Directors and agreed with the Monetary Authority. Further, the Company must be in compliance with the Monetary Authority's Supervisory Policy Manual with respect to large exposures and risk concentrations.

If a person, company or combination thereof to the definition of related persons to whom an authorized institution is financially exposed is a trustee of more than one trust, the Monetary Authority may, by notice in writing, specify the authorized institution's financial exposure to that person, company or combination thereof, may exceed an amount equivalent to 25 per cent. of the Tier 1 capital of the licensed bank by an amount not more than the amount specified in that notice.

Other Restrictions on Lending

The Banking Ordinance also provides that the amount of the facilities which a Hong Kong incorporated authorized institution may make available on an unsecured basis to its controllers, its directors, their relatives or certain of its employees and persons associated with any of them shall be subject to the restrictions set out therein.

The Banking (Exposure Limits) Rules (Cap. 155S) of Hong Kong (the "**BELR**") also provides that:

(1) authorized institutions may not provide a financial facility against the security of their own shares, capital in nature instrument or non-capital LAC debt instruments (or, except with the approval of the Monetary Authority, that of their respective holding companies, subsidiaries or fellow subsidiaries of such holding companies); and

(2) authorized institutions may not, except with the written consent of the Monetary Authority, provide to any one of their employees any unsecured facility of an amount in excess of that employee's salary for one year.

Restrictions on Investments in Land

Under the BELR, an authorized institution must at all times maintain a land exposure ratio (as defined in the BELR) not exceeding 50.0 per cent. and an adjusted land exposure ratio (as defined in the BELR) not exceeding 25.0 per cent. The Monetary Authority may, by written notice served on an authorized institution, vary any or both of the limits under the BELR for the authorized institution if the Monetary Authority, after taking into account the considerations, including the risks associated with the level or concentration of the authorized institution's holding of interests in land, any risk mitigation measures taken by the authorized institution to manage those risks and any other factors that the Monetary Authority considers relevant, is satisfied on reasonable grounds that it is prudent to make the variation.

Equity Exposures in Other Companies

An authorized institution incorporated in Hong Kong may not acquire or hold the aggregate equity exposures which exceed 25.0 per cent. of the authorized institution's Tier 1 capital base except for shares held by way of security for facilities and by virtue of acquisitions in satisfaction of debts due to it (which must, however, be disposed of at the earliest suitable opportunity and not later than 18 months after their acquisition unless the Monetary Authority agrees to a longer period). Shares held by virtue of underwriting and sub-underwriting commitments are, nevertheless, permitted provided the relevant shares are disposed of within seven working days or such longer period as the Monetary Authority may agree.

There are other exemptions for any holding of equity exposures approved by the Monetary Authority in other banks and companies carrying on nominee, executor, trustee or other functions related to banking business, the business of deposit taking, insurance, investments or other financial services.

Charges

An authorized institution incorporated in Hong Kong is not permitted to create any charges over its assets if either the aggregate value of all charges existing over its total assets is 5.0 per cent. or more of the value of those total assets or creating that charge would cause the aggregate value of all charges over its total assets to be more than 5.0 per cent. of the value of those total assets.

Restrictions on Overseas Activities

An authorized institution which is incorporated in Hong Kong is subject to a condition that it shall not establish or maintain any overseas branch or overseas representative office without the approval of the Monetary Authority. The Monetary Authority is empowered by the Banking Ordinance to require financial and other information regarding any such overseas branch to be supplied to it.

Further, an authorized institution incorporated in Hong Kong or its Hong Kong incorporated holding company may not without the consent of the Monetary Authority own a company incorporated outside of Hong Kong which may (whether or not in or outside of Hong Kong) lawfully take deposits from the public. The Monetary Authority may at any time attach in respect of any such approved overseas companies any conditions as the Monetary Authority may think proper.

Shareholders, Chief Executives and Directors

Limitations on Shareholders

The Monetary Authority has the power to object, on certain specified grounds, to persons becoming or being "**controllers**" of authorized institutions incorporated in Hong Kong. "**Controller**" in this context means:

(1) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, 10.0 per cent. or more, but not more than 50.0 per cent., of the voting power at any general meeting of the authorized institution or of another company of which it is a subsidiary; or

(2) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, more than 50.0 per cent. of the voting power at any general meeting of the authorized institution or of another company of which it is a subsidiary; or

(3) a person in accordance with whose directions or instructions the directors of the authorized institution or of another company of which it is a subsidiary are accustomed to act (but does not include any professional advisers or managers appointed by the Monetary Authority to manage the authorized institution).

A person may not become a controller of an authorized institution incorporated in Hong Kong unless he has served a written notice on the Monetary Authority of his proposal to that effect and the Monetary Authority consents to his becoming such a controller or does not object within three months.

Within the three-month period, the Monetary Authority may object to the applicant's proposal, unless it is satisfied that the applicant is a fit and proper person to become a controller; that depositors' or potential depositors' interests will not be threatened by that person being such a controller; and having regard to the applicant's likely influence on that institution as a controller, the authorized institution is likely to continue to conduct its business prudently or that the applicant is likely to undertake adequate remedial action to ensure that the authorized institution will conduct its business prudently. The Monetary Authority may also object to the continuation of a person as a controller on similar grounds as in respect of new controllers.

Where a person becomes a controller (by virtue of being able to exercise or control the exercise of certain voting power in an authorized institution) after a notice of objection has been served on him or otherwise in the contravention of the procedure prescribed by the Banking Ordinance, the Monetary Authority may notify the controller that until further notice any specified shares are subject to one or more of the following restrictions:

(1) any transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, and any issue of such shares, shall be void;

(2) voting rights in respect of those shares shall not be exercisable;

(3) no further shares in right or pursuant to any offer made to the shareholder shall be issued; or

(4) except in a liquidation, no payments of any sums due from the authorized institution on the shares shall be paid.

In addition, the Monetary Authority may apply to court for an order that the shares be sold. Once the shares are sold, the proceeds (less the costs of sale) shall be paid into court and held for the benefit of the persons beneficially interested in them.

In the case of an indirect controller who does not have the approval of the Monetary Authority, the person concerned is prohibited from giving directions or instructions to the directors of the authorized institution or of another company of which it is a subsidiary.

Limitations on Persons Becoming Chief Executives or Directors

All authorized institutions must have a chief executive ordinarily resident in Hong Kong. A person requires the written consent of the Monetary Authority before becoming a chief executive and alternate chief executive.

The consent of the Monetary Authority is also required for a person to become a director of a Hong Kong incorporated authorized institution.

Supervision of Securities Business

The SFO, which came into operation in April 2003, introduced a substantial change to the conduct of securities business by banks. Banks are no longer exempted from the relevant regulations when they engage in securities business. Instead they are required to apply for registration with the SFC, which means they will have to meet the Fit and Proper Criteria set by the SFC. Likewise, staff engaged by banks in securities business will have to meet the Fit and Proper Criteria applicable to staff of brokerage firms. It is a statutory condition of registration for banks that each member of staff engaged by them in securities business is a fit and proper person. Banks will also have to comply with the various regulatory requirements set by the SFC in relation to their securities business, including the subsidiary legislation and the business conduct codes. Under the SFO, banks and their securities staff will be subject to the same range of disciplinary actions that are applicable to brokers and their staff in case they are guilty of misconduct or otherwise not fit and proper.

With the introduction of a new licensing regime under the SFO, corresponding changes have been made to the Banking Ordinance by way of the introduction of the Banking (Amendment) Ordinance 2002. Such ordinance came into operation simultaneously with the SFO and has enabled the Monetary Authority to enhance their regulatory functions in relation to the securities businesses of banks and other authorized institution that are registered under the SFO.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with the National Administration of Financial Regulation (the "**NAFR**") and the PBoC acting as the principal regulatory authorities. The NAFR is primarily responsible for supervising and regulating banking and insurance institutions, and the PBoC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the PRC PBoC Law, the PRC Commercial Banking Law, the Law of PRC Supervision and Administration of Banking Sector, and the rules and regulations promulgated thereunder.

PRINCIPAL REGULATORS

Prior to April 2003, the PBoC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, China Banking Regulatory Commission ("**CBRC**") was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from the PBoC. The PBoC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In April 2018, CBRC and China Insurance Regulatory Commission were merged as China Banking and Insurance Regulatory Commission (the "**CBIRC**"), covering the regulation of banking and insurance sectors in the PRC. In this Offering Circular, the term of "CBRC" has been used in the context of regulations, rules and actions issued or taken by CBRC before April 2018. On 18 May 2023, the NAFR was established and the functions and powers of CBIRC were taken over by NAFR.

The NAFR

Functions and Powers

The NAFR is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of the NAFR in relation to banking regulation include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(7) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(8) imposing corrective and punitive measures for violations of applicable banking regulations;

(9) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(10) working with authorities (including the PBoC and the Ministry of Finance of the PRC);

(11) establishing emergency disposal mechanisms and dealing with any emergencies in the banking sector;

(12) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(13) carrying out international communication and cooperation activities related to supervision of the banking sector.

Examination and Supervision

The NAFR, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. The NAFR also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with a regulation, the NAFR has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

The PBoC

As the central bank of the PRC, the PBoC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBoC Law, the PBoC is empowered to do the following:

(1) drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions;

(2) formulating and implementing monetary policy in accordance with law;

(3) issuing the Renminbi and administering its circulation;

(4) regulating the inter-bank lending market and the inter-bank bond market;

(5) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(6) supervising and regulating gold market;

(7) holding and managing the state foreign exchange and gold reserves;

(8) managing the state treasury as fiscal agent;

(9) making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems;

(10) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(11) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; and

(12) participating in international financial activities at the capacity of the central bank.

OTHER REGULATORY AUTHORITIES

In addition to the NAFR and the PBoC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE and the China Securities Regulatory Commission (“**CSRC**”). For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; and in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of the CSRC.

LICENSING REQUIREMENTS FOR A FOREIGN BANK TO INCORPORATE IN PRC

Basic Requirements

Under the Regulations, for a foreign bank to offer a full range of banking services, including Renminbi retail business, it has to be incorporated in PRC. To incorporate a banking subsidiary in the PRC, foreign banks must at least satisfy the following main criteria:

(1) provide proof of international track record;

(2) provide evidence of continual profit-making ability;

(3) show effective internal policies and procedures, including anti-money laundering measures;

(4) have approvals from home country regulators;

(5) the registered capital of the proposed subsidiary must meet the applicable minimum requirement;

(6) the principal persons-in-charge of the proposed subsidiary must possess the requisite qualifications;

(7) execution of the power of attorney to the proposed principal persons-in-charge of the bank;

(8) guarantee letter issued by the foreign bank establishing a subsidiary, stating that it shall be responsible for all the taxes and other indebtedness that the subsidiary may incur; and

(9) the foreign banks' (as the controlling or major shareholders of their PRC subsidiaries) total assets at the end of the most recent year prior to the application for establishment of their PRC subsidiaries must meet the applicable minimum requirement.

Branches

A wholly-owned foreign bank intending to set up branches in the PRC should allocate certain level of working capital per branch. The total capital used for setting up these branches should not exceed a certain percentage of the wholly-owned foreign bank registered capital.

REGULATIONS REGARDING CAPITAL ADEQUACY

Capital Adequacy Guidelines

In June 2012, the CBRC issued the CBRC Capital Regulations regulating capital adequacy ratios ("**CAR**") of PRC commercial banks, which was replaced by the New NAFR Capital Regulations issued by NAFR on 26 October 2023 and effective from 1 January 2024. The NAFR Capital Regulations and the New NAFR Capital Regulations, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the NAFR Capital Regulations and the New NAFR Capital Regulations as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

On 29 November 2012, the CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (the "**2012 Guiding Opinions**"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments. On 22 November 2019, the 2012 Guiding Opinions was abolished by the CBIRC and was superseded by the (Revised) Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by the CBIRC（中國銀保監會關於印發《關於商業銀行資本工具創新的指導意見(修訂)》的通知)(the "**2019 Guiding Opinions**").'

LIQUIDITY RATIOS REQUIREMENTS

The Regulations provides that Wholly Foreign Funded Banks must have a liquidity ratio of its current assets to its current liabilities of no less than 25 per cent.

TAXATION

The statements herein regarding taxation are based on the laws and practice in force as at the date of this Offering Circular and are subject to any changes in law or practice occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Instruments.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Instruments.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Instruments may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Instruments is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Instruments is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Instruments is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Instruments is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Instruments will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Instruments will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source, unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Instruments are acquired and disposed of.

In addition, with effect from 1 January 2024, pursuant to various foreign-sourced income exemption legislation in Hong Kong (the "**FSIE Amendments**"), certain specified foreign-sourced income (including interest, dividend, disposal gain or intellectual property income, in each case, arising in or derived from a territory outside Hong Kong) accrued to an MNE entity (as defined in the FSIE Amendments) carrying on a trade, profession or business in Hong Kong is regarded as arising in or derived from Hong Kong and subject to Hong Kong profits tax when it is received in Hong Kong. The FSIE Amendments also provide for relief against double taxation in respect of certain foreign-sourced income and transitional matters.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes, provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes, provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

With effect from 17 November 2023, if stamp duty applies to the transfer of Registered Notes required to be registered in Hong Kong and which are not otherwise exempt it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

U.S. Foreign Account Tax Compliance Withholding ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" (as defined by FATCA, and including an intermediary through which Bonds are held) may be required to withhold at a rate of 30% on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

PRC CURRENCY CONTROLS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current

PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer or Arranger takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Instruments held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Instruments held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the Monetary Authority for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Capital Regulations.

Compared with clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the Monetary Authority does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the Monetary Authority advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the Monetary Authority will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from the records of the CMU obtained by request from the Monetary Authority for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Instruments held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Instruments

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Instruments to be represented by a Global Certificate. The Issuer may also apply to have Instruments to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code, or a CMU Instrument Number. Investors in Instruments of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Instruments will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Instruments initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

DEALER AGREEMENT

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 12 September 2025 (the "**Dealer Agreement**") between the Issuer, the Programme Dealers and the Arrangers, the Instruments will be offered on a continuous basis by the Issuer to the Programme Dealers. However, the Issuer has reserved the right to sell Instruments directly on its own behalf to Dealers that are not Programme Dealers. The Instruments may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Instruments may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Instruments to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Instruments subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Instruments on a syndicated basis will be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Instruments in certain circumstances prior to payment for such Instruments being made to the Issuer.

The Arrangers, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business. The Dealers or certain of their respective affiliates may purchase the Instruments and be allocated the Instruments for asset management and/or proprietary purposes but not with a view to distribution.

The Arrangers, the Dealers or any of their respective affiliates may purchase the Instruments for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Instruments and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Instruments or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Instruments to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Instruments).

In connection with the offer and sale of each Series of Instruments, the relevant Pricing Supplement will indicate whether or not and, if so, on which stock exchange(s) the Instruments will be listed. No assurances can be given that if the relevant Pricing Supplement indicates that such Series of Instruments will be listed on a stock exchange, that such Instruments will trade from their date of issuance until maturity (or early redemption) and that such listing will be maintained.

SELLING RESTRICTIONS

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Instruments is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

United States

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

Each Dealer has represented that:

(a) *Offers/sales only in accordance with Regulation S:* it has not offered or sold, and will not offer or sell, any Instruments constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S;

(b) *No directed selling efforts:* neither it nor any of its affiliates (nor any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Instruments; and

(c) *No contractual arrangements without consent:* it has not entered, and will not enter, into any contractual arrangement with respect to the distribution or delivery of the Instruments, except with its affiliates or with the prior written consent of the Issuer.

Completion of distribution: Each Dealer has agreed to notify the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Instruments of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Instruments of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period.

The Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each issuance of index-, commodity- or currency-linked Instruments shall be subject to such additional U.S. selling restrictions as the Relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Instruments. Each Relevant Dealer agrees that it shall offer, sell and deliver such Instruments only in compliance with such additional U.S. selling restrictions.

European Economic Area

Prohibition of Sales to EEA Retail Investors:

If the Pricing Supplement in respect of any Instruments specifies the "*Prohibition of Sales to EEA Retail Investors*" as "*Applicable*", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(1) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; and

(2) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

Public Offer Selling Restriction under the EU Prospectus Regulation

If the Pricing Supplement in respect of any Instruments specifies "*Prohibition of Sales to EEA Retail Investors*" as "*Not Applicable*", in relation to each Member State of the European Economic Area each Dealer has represented and agreed that it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Instruments to the public in that Member State:

(a) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;

(b) *Fewer than 150 offerees:* at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) *Other exempt offers:* at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of Instruments referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended.

United Kingdom

Prohibition of Sales to UK Retail Investors:

If the Pricing Supplement in respect of any Instruments specifies the "*Prohibition of Sales to UK Retail Investors*" as "*Applicable*", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(1) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; and

(2) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Instruments specifies the "*Prohibition of Sales to UK Retail Investors*" as "*Not Applicable*", each Dealer has represented and agreed that it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Instruments to the public in the United Kingdom:

(a) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(b) *Fewer than 150 offerees:* at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) *Other exempt offers:* at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Instruments referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK Regulatory Restrictions

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(1) in relation to any Instruments which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Instruments except for Instruments which are a "structured product" as defined in the SFO other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Instruments, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Instruments which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Instruments or caused such Instruments to be made the subject of an invitation for subscription or purchase and will not offer or sell any Instruments or cause such Instruments to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Instruments, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of SFA) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

People's Republic of China

Each Dealer has represented, warranted and agreed that the Instruments may not be offered or sold directly or indirectly in the PRC. This Offering Circular, the Instruments and any material or information contained or incorporated by reference herein relating to the Instruments have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("**CSRC**") or other relevant governmental and regulatory authorities in the PRC pursuant to relevant laws and regulations and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Instruments in the PRC. Neither this Offering Circular nor any material or information contained or incorporated by reference therein relating to the Instruments constitutes an offer to sell or the solicitation of an offer to buy any securities in the PRC.

The Instruments may only be invested in by PRC investors that are authorised to engage in the investment in the Instruments of the type being offered or sold. PRC investors are responsible for informing themselves about and observing all legal and regulatory restrictions, obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, any which may be required from the People's Bank of China, the State Administration of Foreign Exchange, CSRC, the National Financial Regulatory Administration and other relevant regulatory bodies or successors of the aforementioned regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or overseas investment regulations.

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Instruments. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Instruments (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Instruments. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Instruments, private banks should disclose, at the same time, if such order is placed *other than* on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code); and
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Managers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

By placing an order, prospective investors (including any underlying investors in relation to omnibus orders) are deemed to represent to the Dealers that it is not a Sanctions Restricted Person. A "Sanctions Restricted Person" means an individual or entity (a "**Person**"): (a) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (i) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/sdnlist.pdf) or (ii) the Foreign Sanctions Evaders List (which as of the date hereof can be found at: http://www.treasury.gov/ofac/downloads/fse/fselist.pdf) or (iii) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: https://data.europa.eu/data/datasets/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions?locale=en); or (b) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of the following (i) to (vi), to the extent that it will not result in a violation of any sanctions by the CMIs (i) their inclusion in the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at: https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf) (the "**SSI List**"), (ii) their inclusion in Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by

Council Regulation No. 960/2014 (the "EU Annexes"), (iii) their inclusion in any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes, (iv) them being the subject of restrictions imposed by the U.S. Department of Commerce's Bureau of Industry and Security ("**BIS**") under which BIS has restricted exports, re-exports or transfers of certain controlled goods, technology or software to such individuals or entities; (v) them being an entity listed in the Annex to the new Executive Order of 3 June 2021 entitled "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China" (known as the Non-SDN Chinese Military- Industrial Complex Companies List), which amends the Executive Order 13959 of 12 November 2020 entitled "Addressing the threat from Securities Investments that Finance Chinese Military Companies"; or (vi) them being subject to restrictions imposed on the operation of an online service, Internet application or other information or communication services in the United States directed at preventing a foreign government from accessing the data of U.S. persons; or (c) that is located, organized or a resident in a comprehensively sanctioned country or territory, including Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine, the Donetsk's People's Republic or Luhansk People's Republic. "Sanctions Authority" means: (a) the United Nations; (b) the United States; (c) the European Union (or any of its member states); (d) the United Kingdom; (e) the People's Republic of China; (f) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; and (g) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury, the United States Department of State, the United States Department of Commerce and His Majesty's Treasury.

GENERAL INFORMATION

1 **Listing:** Application has been made to the HKSE for the listing of the Programme under which the Instruments may be issued by way of debt issues to Professional investors only during the 12-month period after the date of this document on the HKSE. Instruments to be listed, traded or quoted on the HKSE or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the HKSE or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

2 **Clearing Systems:** The Legal Entity Identifier (LEI) Code of the Issuer is 549300UE27D3HDTZET39. The Instruments may be accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Instruments accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Instruments will be specified in the applicable Pricing Supplement. If the Instruments are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

3 **Litigation:** None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Instruments, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.

4 **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme. The establishment and update of the Programme, the issue of Instruments thereunder and the issue of this Offering Circular have been duly authorised by a resolution of the Board of Directors of the Issuer passed on 3 May 2019. The Issuer has obtained and has agreed to obtain from time to time all necessary consents, approvals and authorisations for the issue of Instruments under the Programme, including, but not limited to, approval from Monetary Authority.

5 **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2024.

6 **Available Documents:** For so long as Instruments may be issued pursuant to this Offering Circular, the following documents will be available, at all reasonable times during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection upon prior written request and satisfactory proof of holding at the office of the Issuer and/or at the specified office of the Principal Paying Agent:

(a) the Articles of Association of the Issuer;

(b) the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2022, 2023 and 2024 and copies of the auditor's report of the Issuer's external auditor;

(c) copies of the most recent annual and interim reports (including the financial statements) published by the Issuer;

(d) the Trust Deed;

(e) the Agency Agreement;

(f) the Dealer Agreement;

(g) a copy of this Offering Circular together with any supplement to this Offering Circular or further Offering Circular;

(h) a copy of the subscription agreement for Instruments issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require; and

(i) each Pricing Supplement (save that Pricing Supplement relating to an Instrument which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Instrument and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Instruments and identity).

7 **Auditor:** The consolidated financial statements of the Issuer as at and for the years ended 31 December 2022, 2023 and 2024 which are included elsewhere in this Offering Circular have been audited by Ernst & Young, Certified Public Accountants, as stated in the auditor's report appearing herein.

8 Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

9 The issue price and the amount of the relevant Instruments will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Instruments.

INDEX TO FINANCIAL STATEMENTS

References to page numbers in the following financial statements refer to the original page numbers of the audited financial statements, as the case may be, and cross-references to page numbers are to such original page numbering.

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the member of Chong Hing Bank Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 67 to 214, which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2024, 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
Refer to material accounting policies in note 4, and disclosures on credit risk in note 7, note 14 and note 21 to the consolidated financial statements. As at 31 December 2024, gross advances to customers amounted to HK$162 billion and the expected credit loss ("ECL") allowances for advances to customers amounted to HK$3 billion. The assessment of credit risk and the measurement of ECLs are required to be based on unbiased and probability-weighted possible outcomes, and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group has adopted a forward-looking expected loss impairment model to recognise ECLs in respect of advances to customers. Significant management judgement and estimates are involved in the calculation of ECLs, including: – segmentation of financial assets according to credit risk characteristics – criteria to determine whether a significant increase in credit risk has occurred – determination of the ECL stage, estimation of probability of default, loss given default, exposure at default and discount rates – selection of forward-looking macroeconomic scenarios and their probability weightings For individual impairment allowances, management judgement is required to determine the probability of multiple exit or work out scenarios and estimate the impact that the uncertainties observed in current economic environment, including the risk associated with the commercial real estate sector in Mainland China and Hong Kong, may have on these exit strategies, the time to collect, and collateral valuation.	We obtained an understanding of the Group's credit management policies and procedures, including measurement and recognition of ECLs. We read the minutes of the Group's Risk Committee, Risk Management Committee, Expected Credit Loss Committee, and Model Governance Committee meetings, to understand ECL model governance and monitoring and the approval of the internal credit risk ratings and assumptions used in the ECL calculation. We performed walkthroughs of credit management processes and evaluated the Group's impairment methodology, including management judgement in respect of the segmentation of portfolio, the criteria on significant credit deterioration and the measurement approach of expected credit losses. We assessed the design and tested the operating effectiveness of the key controls over the systems and processes of credit assessment, loan classification, stage classification and calculation of ECL allowances. Our testing of the loan impairment processes' controls included, amongst others, an evaluation of the governance in respect of the selection and probability weightings of economic scenarios and the controls over data input. For the ECL allowances as at 31 December 2024, we performed testing on the completeness and accuracy of the data used in the ECL calculation by comparing the individual loan data to the relevant data source on a sample basis; evaluating the calculation logic and data processing; and recomputing management's calculation of the ECL allowances. We engaged our internal specialists in evaluating the impairment methodology and model enhancements. We assessed the appropriateness of the ECL model used by management in determining impairment allowances, including changes made to forward-looking macroeconomic scenarios, and evaluated the key parameters and assumptions adopted in the model. The key parameters and assumptions included ECL stage, probability of default, loss given default, exposure at default, and probability weighted economic scenarios.

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
In view of the significance of ECL allowances and the management judgement and estimates involved, the ECL allowances for advances to customers are considered a key audit matter.	In addition, for the corporate lending portfolio, we adopted a risk-based sampling approach to perform loan review procedures, with focus on high-risk industries including the commercial real estate sector in Mainland China and Hong Kong, in order to assess the appropriateness of management's credit risk rating and ECL staging by reviewing the borrowers' financial performance, valuation of collateral and other available information. As part of our loan review procedures, we selected samples of credit-impaired loans and advances and assessed their stage 3 ECL allowances by evaluating the timing and means of realisation of collateral, the forecast of recoverable cash flows, the viability of recovery plans and other credit enhancements. We also checked and evaluated the financial statement disclosures on credit risk relating to advances to customers.
Valuation of Level 3 financial assets	
Refer to material accounting policies in note 4, and disclosures on fair values and the valuation hierarchy of financial instruments in note 7 and note 19 to the consolidated financial statements. As at 31 December 2024, the Group's financial assets and liabilities measured at fair value amounted to HK$58,563 million and HK$2,262 million, respectively. In connection with this, HK$876 million of the Group's financial assets measured at fair value were classified as Level 3 under the fair value hierarchy. No financial liabilities measured at fair value of the Group were classified as Level 3 under the fair valuation hierarchy. To estimate the fair value of these Level 3 financial assets, management is required to exercise significant judgement in respect of the selection of appropriate valuation techniques, and the development of assumptions and significant unobservable inputs into the valuation models. Valuation results can vary significantly under different valuation techniques or assumptions. In view of the complexity and significance of management judgements and assumptions required, valuation of Level 3 financial assets is considered as a key audit matter.	We obtained an understanding of the Group's valuation policies and procedures for Level 3 financial assets. In conjunction with our internal specialists, we performed, amongst others, the following procedures for the Level 3 financial assets: • Critically evaluated the appropriateness of valuation techniques and assumptions by assessing the characteristics of the financial assets with reference to the valuation techniques and assumptions that are commonly used in the market for financial assets with similar nature. • Independently revalued the financial assets and compared management's valuation outcome to our independent testing. We obtained an understanding and evaluated any material differences in valuation outcomes. • Assessed the valuation inputs used and agreed to third-party data sources where available. We have checked and evaluated the financial statement disclosures relating to fair value of Level 3 financial assets.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 of the Bank 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 of the Bank either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee 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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

- 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.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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 Tso Pui Sze.

Ernst & Young
Certified Public Accountants

Hong Kong
18 March 2025

FINANCIAL STATEMENTS – CONTENTS

FINANCIAL STATEMENTS – CONTENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
Interest income		12,672,387	12,575,378
Interest expense		(7,836,278)	(7,596,070)
Net interest income	9	4,836,109	4,979,308
Fee and commission income		430,753	387,323
Fee and commission expenses		(99,664)	(97,447)
Net fee and commission income	10	331,089	289,876
Net income from trading and investments	11	751,832	552,226
Other operating income	12	154,932	181,466
Operating expenses	13	(2,016,048)	(1,930,031)
Operating profit before impairment allowances		4,057,914	4,072,845
Net impairment losses on financial assets	14	(2,365,492)	(2,454,126)
Operating profit after impairment allowances		1,692,422	1,618,719
Net losses on disposal of equipment		(384)	(2,272)
Net losses on fair value adjustments on investment properties	24	(33,148)	(5,570)
Share of profit (losses) of associates	23	60,949	(43,003)
Profit before taxation		1,719,839	1,567,874
Taxation	15	(128,824)	(126,104)
Profit for the year			
– Attributable to equity owners of the Bank		1,591,015	1,441,770

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2024

	2024 HK$'000	2023 HK$'000
Profit for the year	**1,591,015**	1,441,770
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investments properties	**115,748**	–
Surplus on remeasurement of retirement benefit	**–**	2,307
Income tax effect relating to retirement benefit	**–**	(380)
Net gains on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	**81,904**	611,570
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**(280,502)**	(218,394)
Net gains on investments in debt instruments measured at FVOCI	**232,213**	174,028
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	**(17,045)**	(30,856)
Income tax effect relating to disposal of financial assets measured at FVOCI	**2,561**	5,091
Income tax effect relating to fair value change of financial assets measured at FVOCI	**(66,961)**	(77,413)
Share of other comprehensive income of associates	**2,234**	–
Other comprehensive income for the year (net of tax)	**70,152**	465,953
Total comprehensive income for the year	**1,661,167**	1,907,723
Total comprehensive income attributable to:		
Equity owners of the Bank	**1,661,167**	1,907,723

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
Assets			
Cash and balances and placements with banks	17	92,849,713	65,508,631
Derivative financial instruments	18	2,132,987	1,405,454
Investments in securities	19	57,595,849	69,291,896
Advances and other accounts	21	166,867,449	167,250,753
Tax recoverable		13,872	97,550
Interests in associates	23	406,871	372,868
Investment properties	24	411,624	312,436
Property and equipment	25	893,404	1,044,794
Deferred tax assets	32	5,028	1,714
Intangible assets	33	687,335	757,648
Total assets		321,864,132	306,043,744
Liabilities			
Deposits and balances with banks and other financial institutions	26	17,444,171	16,545,976
Deposits from customers	27	247,144,076	239,281,407
Derivative financial instruments	18	1,232,261	919,905
Other accounts and accruals	34	5,620,305	5,154,691
Current tax liabilities		79,430	19,895
Certificates of deposit	28	5,094,471	387,415
Loan capital	29	5,958,446	3,384,753
Deferred tax liabilities	32	96,886	76,279
Total liabilities		282,670,046	265,770,321
Equity attributable to owners of the Bank			
Share capital	30	21,030,884	20,030,884
Additional equity instruments	31	2,316,681	5,427,996
Reserves		15,846,521	14,814,543
Total equity		39,194,086	40,273,423
Total liabilities and equity		321,864,132	306,043,744

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 18 March 2025 and signed on its behalf by:

Li Feng
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2024

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2024		20,030,884	5,427,996	(182)	867,493	197,136	1,388,500	(482,205)	538,000	12,305,801	40,273,423
Profit for the year		-	-	-	-	-	-	-	-	1,591,015	1,591,015
Other comprehensive income (net of tax)		-	-	-	234,906	115,748	-	(280,502)	-	-	70,152
Total comprehensive income for the year		-	-	-	234,906	115,748	-	(280,502)	-	1,591,015	1,661,167
Transfer of gain on disposal of equity investments at FVOCI to retained earnings		-	-	-	(2,876)	-	-	-	-	2,876	-
Issue of share capital	*30*	1,000,000	-	-	-	-	-	-	-	-	1,000,000
Redemption of additional equity instruments		-	(3,111,315)	-	-	-	-	-	-	(12,006)	(3,123,321)
Distribution payment for additional equity instruments		-	(307,183)	-	-	-	-	-	-	-	(307,183)
Transfer from retained profits		-	307,183	-	-	-	-	-	-	(307,183)	-
Interim dividend paid	*16*	-	-	-	-	-	-	-	-	(160,000)	(160,000)
Final dividend paid	*16*	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	17,000	(17,000)	-
At 31 December 2024		21,030,884	2,316,681	(182)	1,099,523	312,884	1,388,500	(762,707)	555,000	13,253,503	39,194,086

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2024

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2023		17,030,884	5,427,996	(182)	185,073	197,136	1,388,500	(263,811)	614,000	11,403,257	35,982,853
Profit for the year		–	–	–	–	–	–	–	–	1,441,770	1,441,770
Other comprehensive income (net of tax)		–	–	–	682,420	–	–	(218,394)	–	1,927	465,953
Total comprehensive income for the year		–	–	–	682,420	–	–	(218,394)	–	1,443,697	1,907,723
Issue of share capital	*30*	3,000,000	–	–	–	–	–	–	–	–	3,000,000
Distribution payment for additional equity instruments		–	(307,153)	–	–	–	–	–	–	–	(307,153)
Transfer from retained profits		–	307,153	–	–	–	–	–	–	(307,153)	–
Interim dividend paid	*16*	–	–	–	–	–	–	–	–	(180,000)	(180,000)
Final dividend paid	*16*	–	–	–	–	–	–	–	–	(130,000)	(130,000)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	(76,000)	76,000	–
At 31 December 2023		20,030,884	5,427,996	(182)	867,493	197,136	1,388,500	(482,205)	538,000	12,305,801	40,273,423

The retained profits of the Group included retained profits of HK$203,792,000 (2023: retained profits of HK$172,023,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's (the "HKMA") requirements and is distributable to shareholders of the Bank subject to consultation with the HKMA.

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		1,719,839	1,567,874
Adjustments for:			
Net interest income	*9*	(4,836,109)	(4,979,308)
Net impairment losses on financial assets	*14*	2,365,492	2,454,126
Net losses on disposal of equipment		384	2,272
Net gains on disposal of debt securities measured at FVOCI	*11*	(17,045)	(30,856)
Net gains on disposal of debt securities measured at amortised cost		(67)	–
Net loss on fair value adjustments on investment properties	*24*	33,148	5,570
Net gains on financial instruments at fair value through profit or loss		(242,559)	(182,657)
Share of (profit) losses of associates	*23*	(60,949)	43,003
Net gains on fair value hedge		(2,229)	(10,323)
Dividends received from investments	*12*	(10,158)	(18,777)
Depreciation and amortisation	*13*	303,321	309,551
Exchange adjustments		337,068	353,101
Operating cash flows before movements in operating assets and liabilities		(409,864)	(486,424)
(Increase) decrease in operating assets:			
Placements with banks		(3,317,438)	790,804
Financial assets at fair value through profit or loss		(404,596)	(1,295,060)
Advances to customers		(1,058,755)	1,567,511
Advances to other financial institutions		(336,762)	(1,097,040)
Other accounts		(83,844)	692,626
(Decrease) increase in operating liabilities:			
Deposits with banks		(94,146)	1,777,462
Balances with bank and other financial institutions		992,341	1,123,764
Deposits from customers		7,862,669	15,793,180
Certificates of deposit		4,707,056	387,415
Derivative financial instruments		(533,703)	(406,266)
Other accounts and accruals		201,660	223,652
Cash generated from operations		7,524,618	19,071,624
Hong Kong profits tax paid		(11,827)	(41,612)
Overseas tax paid		(6,044)	(129,415)
Interest received		10,476,390	10,458,794
Interest paid		(7,376,274)	(7,223,578)
NET CASH GENERATED FROM OPERATING ACTIVITIES		10,606,863	22,135,813

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2024

	Notes	2024 HK$'000	2023 HK$'000
INVESTING ACTIVITIES			
Interest received from investments in securities		1,942,786	1,504,123
Dividends received from investments in securities	*12*	10,158	18,777
Dividends received from associates		29,180	21,820
Purchase of financial assets measured at amortised cost		(1,824,259)	(1,537,649)
Purchase of financial assets measured at FVOCI		(181,183,319)	(177,332,400)
Purchase of property and equipment		(47,146)	(27,143)
Purchase of intangible assets		(18)	(3,189)
Proceeds from redemption of financial assets measured at amortised cost		3,925,467	4,303,286
Proceeds from sale and redemption of financial assets measured at FVOCI		190,879,233	173,087,608
Proceeds from disposal of equipment		1,429	2,302
NET CASH GENERATED FROM INVESTING ACTIVITIES		13,733,511	37,535
FINANCING ACTIVITIES			
Net proceeds from issue of share capital	*30*	1,000,000	3,000,000
Net proceeds from issue of loan capital	*29*	2,691,500	1,606,500
Redemption of additional equity instruments		(3,123,321)	–
Interest paid on loan capital	*29*	(157,532)	(85,380)
Payment of lease liabilities	*34*	(182,539)	(181,318)
Dividends paid to ordinary shareholders		(310,000)	(310,000)
Distribution paid on additional equity instruments		(307,183)	(307,153)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		(389,075)	3,722,649
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,951,299	25,895,997
CASH AND CASH EQUIVALENTS AT 1 JANUARY		64,290,694	38,394,697
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		88,241,993	64,290,694
Represented by:			
Cash and balances with central bank and banks		17,005,469	13,306,567
Placements with banks – with original maturity within three months		71,236,524	50,984,127
		88,241,993	64,290,694

The notes on pages 74 to 214 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

1. GENERAL INFORMATION

Chong Hing Bank Limited (the "Bank") is a limited company incorporated in Hong Kong.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

Details of the subsidiaries of the Bank (together collectively referred to as the "Group") are set out in note 22 to the consolidated financial statements.

2. APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following revised Hong Kong Financial Reporting Standards ("HKFRSs") are applicable for reporting periods commencing after 1 January 2024:

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current**
Amendments to HKAS 1	*Non-current Liabilities with Covenants**
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

* As a consequence of the amendments to HKAS 1 issued in August 2020 and December 2022, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion.

There were no revised amendments to standards that had a material effect on the consolidated financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective. The Group intends to apply these revised HKFRSs, if applicable, when they become effective. Except as stated below, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKAS 21	*Lack of Exchangeability*[1]
Amendments to HKFRS 9 and HKFRS 7	*Amendments to the Classification and Measurement of Financial Instruments*[2]
HKFRS 18	*Presentation and Disclosure in Financial Statements*[3]
HKFRS 19	*Subsidiaries without Public Accountability: Disclosures*[3]

1 Effective for annual periods beginning on or after 1 January 2025
2 Effective for annual periods beginning on or after 1 January 2026
3 Effective for annual periods beginning on or after 1 January 2027
4 No mandatory effective date yet determined but available for adoption

HKFRS 18 replaces HKAS 1 *Presentation of Financial Statements*. While a number of sections have been brought forward from HKAS 1 with limited changes, HKFRS 18 introduces new requirements for presentation within the income statement, including specified totals and subtotals. Entities are required to classify all income and expenses within the income statement into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management-defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in HKAS 1 are moved to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which is renamed as HKAS 8 Basis of Preparation of Financial Statements. As a consequence of the issuance of HKFRS 18, limited, but widely applicable, amendments are made to HKAS 7 *Statement of Cash Flows*, HKAS 33 *Earnings per Share* and HKAS 34 *Interim Financial Reporting*. In addition, there are minor consequential amendments to other HKFRSs. HKFRS 18 and the consequential amendments to other HKFRSs are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required. The Group is currently analysing the new requirements and assessing the impact of HKFRS 18 on the presentation and disclosure of the Group's financial statements.

4. MATERIAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and the applicable disclosures required by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost convention except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities directly or indirectly controlled by the Bank and its subsidiaries (including structured entities). Control is achieved when the Bank:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not POCI but have subsequently become credit-impaired (or "Stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance).

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods (Continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. 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.

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

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

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

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

– Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Classification and subsequent measurement of debt instruments depend on:

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

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

– 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. Interest income from these financial assets is included in "Interest income" using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

– Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss and recognised in "Net income from trading and investments". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

– Fair value through profit or loss: 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 investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated income statement within "Net income from trading and investments" in the period in which it arises.

  Business model: 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 (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model 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 were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

SPPI: 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. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement (cash flow are not SPPI), the related financial asset is classified and measured at fair value through profit or loss irrespective of the business model.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity (under HKAS 32 "*Financial Instruments: Presentation*") 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. The classification is determined on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Gains and losses on equity investments at FVPL are included in the "Net income from trading and investments" line in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(ii) Impairment

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

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

– The time value of money; and

– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(iv) Derecognition other than on a modification (Continued)

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

(v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities

(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. A financial liability is so designated if (1) it 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 (2) it 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. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies (see Note 4(iv) under financial assets); and

- Financial guarantee contracts and loan commitments.

For financial liabilities measured at amortised cost, after initial recognition, interest-bearing financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expenses in the consolidated income statement.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities (Continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 financial asset and settle the financial liability simultaneously. The legal 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 counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

– The amount of the loss allowance; and

– The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the impairment allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

DERIVATIVES AND HEDGING ACTIVITIES

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the consolidated income statement as net income from trading and investments. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement as net income from trading and investments.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

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" or "repos") are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale received from repos are reported as balance with banks and other financial institutions, and are carried in the consolidated statement of financial position at amortised cost.

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

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

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Goodwill is initially measured at cost, and measured at cost less any accumulated impairment losses after initial recognition.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Computer software and internally developed software

Costs associated with maintaining computer software and internally developed software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Direct attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

INTERESTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, less any impairment losses. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition results and other comprehensive income of the associates in the consolidated income statement and consolidated statement of other comprehensive income, respectively. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INTERESTS IN ASSOCIATES *(Continued)*

The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the consolidated statement of financial position and Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

Revenue from contracts with customers

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

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

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

Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. 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, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Performance obligations satisfied over time mainly include investment management, loans, overdrafts and guarantees and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include services where performance obligations are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from account management, sales and placement, securities dealings, credit card, loans, overdrafts and guarantees and trade finance.

Dividend income

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of dividend can be measured reliably).

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Performance obligations satisfied over time include asset management, advisory, safe deposit box rentals and other banking services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include services where performance obligations are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from remittance, settlement, account management, money exchange, autopay, direct debit and other banking services.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Agency commission

Agency commission received or receivable is recognised when services are provided.

PROPERTY AND EQUIPMENT

Property and equipment including equipment, land and buildings, which mainly comprise of branches and offices are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

PROPERTY AND EQUIPMENT *(Continued)*

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

Depreciation is calculated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the lease
Buildings	Over its estimated useful life of 50 years or over the remaining term of lease of the leasehold land, whichever is the shorter
Equipment	5-15 years

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the item is derecognised.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment" for owned property and/or accounts for such property in accordance with the policy stated under "Leases" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment" above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. 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.

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

Group companies and oversea branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– All resulting exchange differences are recognised in other comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas branches are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas branches which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit plan

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (excluding amount included in net interest on the net defined benefit liability) and the return on plan assets (excluding amount included in net interest on the net defined benefit liability), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the consolidated income statement in subsequent periods. Past service costs are recognised in profit or loss at the earlier of the date of the plan amendment or curtailment; and the date that the Group recognises restructuring-related costs. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

– service cost (including current service cost, past service cost, as well as gains and losses on curtailments and non-routine settlements), recognised in the consolidated income statement;

– net interest expense or income, recognised in the consolidated income statement; and

– remeasurement, recognised in the other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

Defined benefit plan (Continued)

The net retirement benefit liability/asset recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

BONUS PLANS

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

DIVIDENDS

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

Proposed final dividends are disclosed in the notes to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Bank's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future and when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts deferred tax liabilities or assets are expected to be settled or recovered.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central bank and banks and placements with banks.

LEASES

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The group as lessee

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate and the payments to be made under reasonably certain to exercise termination option. 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 the lease. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other accounts and accruals.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

LEASES *(Continued)*

The group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, initial direct costs incurred, any lease payments made at or before the commencement date less any lease incentive received and also includes an estimates of costs to dismantle and remove the underlying asset or to restore the underlying asset on the site on which is located. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are presented within "Property and equipment" in the consolidated statement of financial position.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement over the lease term. Short-term leases are leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets comprise small items of equipment.

The group as lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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.

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACTS

HKFRS 17 sets out the requirements that the Group applies in accounting for insurance contracts it issues, reinsurance contracts it holds and investment contracts with discretionary participation features it issues.

An insurance contract is a contract under which the issuer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Definition and classification

Insurance contracts are contracts under which the Group accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Group uses judgement to access whether a contract transfers insurance risk (that is, if there is a scenario with commercial substance in which the Group has the possibility of a loss on a present value basis) and the whether the accepted insurance risk is significant.

In the normal course of business, the Group uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in the financial information apply to insurance contracts issued (including reinsurance contracts issued) and reinsurance contracts held, unless specifically stated otherwise.

Unit of accounts

(i) Level of aggregation of insurance contracts

The Group manages insurance contracts issued by product lines within an operating segment, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are:

(a) contracts that are onerous at initial recognition;

(b) contracts that an initial recognition have no significant possibility of becoming onerous subsequently; or

(c) a group of remaining contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Unit of accounts (Continued)

(i) Level of aggregation of insurance contracts (Continued)

These groups represent the level of aggregation at which insurance contracts are initial recognised and measured. Such groups are not subsequently reconsidered.

For each portfolio of contracts, the Group determines the appropriate level at which reasonable and supportable information is available, to access whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The Group uses significant judgement to determine at what level of granularity the Group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

For contracts measured using the premium allocation approach ("PAA"), the Group assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment it performed to distinguish onerous contracts from non-onerous ones. For non-onerous contracts, the Group assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous.

Portfolios of reinsurance contract held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of:

(a) contracts for which there is a net gain at initial recognition, if any;

(b) contracts for which, at initial recognition, there is no significant possibility of net gain arising subsequently; and

(c) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Group tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Unit of accounts (Continued)

(ii) Separation of insurance contracts

Before the Group accounts for an insurance contract based on the guidance in HKFRS 17, it analyses whether the contract contains components that should be separated. HKFRS 17 distinguishes three categories of components that have to be accounted for separately:

(a) cash flows relating to embedded derivatives that are required to be separated;

(b) cash flows relating to distinct investment components; and

(c) promises to transfer distinct goods or distinct services other than insurance contract services.

The Group applies HKFRS 17 to all remaining components of the contract. The Group does not have any contracts that require further separation or combination of insurance contracts.

Recognition of insurance contracts

Groups of insurance contracts issued are initial recognised from the earliest of the following:

(i) the beginning of the coverage period;

(ii) the date when the first payment from the policyholder is due or actually received, if there is no due date; and

(iii) when the Group determines that a group of contracts becomes onerous.

Groups of reinsurance contracts held are recognised as follows:

(i) A group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) recognised at the later of:

(a) The beginning of the coverage period of the group; and

(b) The initial recognition of any underlying insurance contract;

(ii) All other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of insurance contract held.

Unless the Group entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the group of reinsurance contract held recognised at the same time as the group of underlying insurance contracts recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria, subject to the annual cohorts restriction. Composition of the new groups is not reassessed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts

(i) Insurance contracts – initial measurement

The Group applies PAA to all the insurance contracts that it issues and reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary

or

- For contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Group has also considered qualitative factors such as the nature of the risk and types of its lines of business.

The Group does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

- The extent of future cash flows related to any derivatives embedded in the contracts

- The length of the coverage period of the group of contracts

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition;

- Minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed;

- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows; and

- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts (Continued)

(ii) Reinsurance contracts held – initial measurement

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

(iii) Insurance contracts – subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, with the exception of property insurance product line for which the Group chooses to expense insurance acquisition cash flows as they occur
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Group, and include an explicit adjustment for non-financial risk (the risk adjustment). The Group does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss.

(iv) Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts (Continued)

(v) Insurance acquisition cash flow

The Group defines acquisition cash flows as cash flows that arise from cost of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

(a) to that group; and

(b) to group that will include insurance contracts that are expected to arise from renewals of the contracts in that group.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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) and the sponsoring employers of the post-employment benefit plan;

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

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

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

EVENTS AFTER THE REPORTING PERIOD

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, it will assess whether the information affects the amounts that it recognises in its consolidated financial statements. The Group will adjust the amounts recognised in its consolidated financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements, but will disclose the nature of the non-adjusting events and an estimate of their financial effects, or a statement that such an estimate cannot be made, if applicable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the critical judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

(A) MEASUREMENT OF THE EXPECTED CREDIT LOSS ALLOWANCE

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, financial assets measured at FVOCI, loan commitment and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The Group establishes, through charges against profit, impairment allowances in respect of expected credit losses on financial instrument. The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment loss
Stage 1	Performing	12-month ECL
Stage 2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
Stage 3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

In response to the deterioration in the property market in China since year 2022, the management of the Group exercised judgment in assessing significant increase in credit risk arising from counterparties associated with real estate industry in China, and determining the respective ECL stage with reference to the ECL model framework of the Group.

Detailed information about the judgments and estimates made by the Group is set out in Note 7.

(B) FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For unlisted equity securities, the fair value are estimated using a market-based valuation technique and based on assumption that are not supported by observable market prices or rates. For derivative financial instruments assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are set out in Note 7.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

(C) MEASUREMENT OF INSURANCE CONTRACTS

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under HKFRS 4. However, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

6. SEGMENT INFORMATION

(A) OPERATING SEGMENTS

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services and others services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities business of the Group includes securities trading and stockbroking.

Others comprise investment holding, insurance and futures broking, insurance underwriting, other investment advisory services, property investments and central management unit.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) ***Operating segment information for the year ended 31 December 2024 is presented below:***

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	8,970,494	3,689,210	4,138	8,545	–	12,672,387
Interest expense to external customers	(7,365,333)	(258,457)	(8)	(212,480)	–	(7,836,278)
Inter-segment interest income *(Note)*	2,033,795	–	25,293	1,369,482	(3,428,570)	–
Inter-segment interest expense *(Note)*	–	(3,428,570)	–	–	3,428,570	–
Net interest income	3,638,956	2,183	29,423	1,165,547	–	4,836,109
Fee and commission income	319,353	1,924	89,071	20,405	–	430,753
Fee and commission expenses	(99,284)	(99)	(281)	–	–	(99,664)
Net income from trading and investments	319,994	396,666	1	35,171	–	751,832
Other operating income	107,885	–	846	46,201	–	154,932
Total operating income						
Segment revenue	4,286,904	400,674	119,060	1,267,324	–	6,073,962
Comprising:						
– Segment revenue from external customers	2,253,109	3,829,244	93,767	(102,158)		
– Inter-segment transactions	2,033,795	(3,428,570)	25,293	1,369,482		
Operating expenses	(1,693,327)	(109,514)	(74,080)	(139,127)	–	(2,016,048)
Net impairment (losses) reversal on financial assets	(2,376,358)	10,859	–	7	–	(2,365,492)
Segment profit	217,219	302,019	44,980	1,128,204	–	1,692,422
Unallocated corporate expenses						(33,532)
Share of profit of associates						60,949
Profit before taxation						1,719,839
Taxation						(128,824)
Profit for the year						1,591,015

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) ***Operating segment information for the year ended 31 December 2024 is presented below: (Continued)***

Operating segment assets and liabilities as of 31 December 2024

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	186,774,732	132,707,494	278,003	487,216	320,247,445
Interests in associates					406,871
Unallocated corporate assets					1,209,816
Consolidated total assets					321,864,132
Liabilities					
Segment liabilities	255,382,900	25,003,475	214,677	105,118	280,706,170
Unallocated corporate liabilities					1,963,876
Consolidated total liabilities					282,670,046

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	19,434	123	–	5,192	22,415	47,164
Depreciation and amortisation	288,286	12,977	1,528	530	–	303,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2023 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	9,290,389	3,253,718	5,032	26,239	–	12,575,378
Interest expense to external customers	(7,172,197)	(299,979)	(11)	(123,883)	–	(7,596,070)
Inter-segment interest income (*Note*)	1,952,633	–	22,449	1,243,579	(3,218,661)	–
Inter-segment interest expense (*Note*)	–	(3,218,661)	–	–	3,218,661	–
Net interest income	4,070,825	(264,922)	27,470	1,145,935	–	4,979,308
Fee and commission income	297,105	1,922	78,661	9,635	–	387,323
Fee and commission expenses	(97,101)	(124)	(222)	–	–	(97,447)
Net income from trading and investments	258,340	294,250	(38)	(326)	–	552,226
Other operating income	142,862	–	820	37,784	–	181,466
Total operating income						
Segment revenue	4,672,031	31,126	106,691	1,193,028	–	6,002,876
Comprising:						
– Segment revenue from external customers	2,719,398	3,249,787	84,242	(50,551)		
– Inter-segment transactions	1,952,633	(3,218,661)	22,449	1,243,579		
Operating expenses	(1,598,213)	(125,961)	(83,560)	(122,297)	–	(1,930,031)
Net impairment (losses) reversal on financial assets	(2,481,641)	27,504	7	4	–	(2,454,126)
Segment profit (losses)	592,177	(67,331)	23,138	1,070,735	–	1,618,719
Unallocated corporate expenses						(7,842)
Share of losses of associates						(43,003)
Profit before taxation						1,567,874
Taxation						(126,104)
Profit for the year						1,441,770

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) ***Operating segment information for the year ended 31 December 2023 is presented below: (Continued)***

Operating segment assets and liabilities as of 31 December 2023

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	181,726,273	121,980,537	217,842	401,399	304,326,051
Interests in associates					372,868
Unallocated corporate assets					1,344,825
Consolidated total assets					306,043,744
Liabilities					
Segment liabilities	242,013,683	22,128,856	178,707	155,327	264,476,573
Unallocated corporate liabilities					1,293,748
Consolidated total liabilities					265,770,321

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	24,486	26	61	679	5,080	30,332
Depreciation and amortisation	285,522	21,885	1,728	416	–	309,551

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

6. SEGMENT INFORMATION *(Continued)*

(B) GEOGRAPHICAL INFORMATION

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2024						
	Total operating income HK$'000	Profit (losses) before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	5,019,324	1,285,292	30,090	222,637,141	191,733,370	49,903,622	2,112,670
Mainland China	1,031,748	471,713	17,074	95,651,151	87,584,855	23,619,411	282,206
Macau	22,890	(37,166)	–	3,575,840	3,351,821	512,478	9,386
Total	6,073,962	1,719,839	47,164	321,864,132	282,670,046	74,035,511	2,404,262

	2023						
	Total operating income HK$'000	Profit (losses) before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	4,786,959	1,067,676	7,759	209,610,931	177,140,094	49,936,491	2,156,043
Mainland China	1,177,931	631,742	22,573	92,210,295	84,603,910	25,715,562	325,621
Macau	37,986	(131,544)	–	4,222,518	4,026,317	486,509	7,796
Total	6,002,876	1,567,874	30,332	306,043,744	265,770,321	76,138,562	2,489,460

Note: Total operating income consists of net interest income, net fee and commission income, net income from trading and investments and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, deferred tax assets and intangible assets.

7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance. The material risk types associated with the Bank are credit risk, market risk (including currency risk, interest rate risk and price risk) and liquidity risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2024 HK$'000	2023 HK$'000
Financial assets		
Financial assets measured at fair value through profit or loss	6,173,866	4,799,177
Financial assets measured at FVOCI *(Note 1)*	52,388,788	64,835,586
Financial assets measured at amortised cost (including cash and cash equivalents) *(Note 2)*	260,844,110	233,789,402
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	2,262,137	945,029
Financial liabilities measured at amortised cost	279,962,482	264,469,102

Note 1: Amount included trade bills measured at FVOCI of HK$430,993,000 (2023: HK$2,707,761,000) under advances and other accounts in the consolidated statement of financial position.

Note 2: Amount included amortised cost debt securities amounting HK$546,665,000 (2023: HK$936,996,000) that are subject to fair value hedge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures") including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board and head of each business unit.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of subsidiaries and branches outside Hong Kong).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit risk officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit risk officer.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk rating

The Group uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being default. Borrower and loan specific information, both quantitative and qualitative, such as profitability ratio and industry type for corporate banking customers, are fed into the rating model to estimate the default risk. The internal credit risk rating is applied on corporate and corporate top tier segments only.

Expected credit loss measurement

HKFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

A financial instrument that has not had a significant changes in credit risk ("SICR") since initial recognition or that has low credit risk at the reporting date is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Measuring ECL in accordance with HKFRS 9 requires consideration of forward-looking information.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into mortgage, credit card, overdraft, personal loan and etc.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions and etc. Credit limit is also considered to further classify the corporate loans into Corporate Top Tier and Corporate.

Treasury

The treasury exposures are grouped based on the issuer type – bank, corporate and sovereign.

Others

For exposures from subsidiaries and overseas branches and sub-branches, they are grouped based on the business type of the subsidiaries and geographic location of the overseas branches and sub-branches.

Determining criteria for SICR

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Group's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

The Group adopts "Policy & Procedures for Loan Classification" based on the HKMA guidelines. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Group also maintains an Early Warning ("EW") list, which includes borrowers who exhibit risks or potential weaknesses of material nature requiring closer monitoring, supervision, or attention by management. The EW accounts are classified into three categories, namely Low Risk, Medium Risk and High Risk.

A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining criteria for SICR (Continued)

- Contractual payments are equal to or more than 30 days and less than 90 days past due;

- Loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification";

- Significant change in external credit rating, i.e. migrating from investment grade to speculative grade if the initial external credit rating at trade date is "investment grade", or external credit rating downgraded by two or more notches compared with the initial rating at trade date subject to agreement by early warning review for such transfer to Stage 2, applicable to debt securities only;

- Any Medium or High risk borrower in the EW List. High risk EW borrowers present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW borrowers exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk borrowers are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of its creditworthiness and it is placed on early warning solely for precautionary purpose, elevated attention and closer monitoring; and

- Any facility with current credit risk rating downgraded by two or more notches compared with the credit risk rating at origination, (applicable to Corporate and Corporate Top Tier segments only).

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Determining definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is aligned with definition of credit impaired, when it meets one or more of following criteria:

- A loan is classified as Substandard, Doubtful or Loss according to the "Policy & Procedures for Loan Classification";

- A financial asset is 90 days past due or more than 90 days past due on the contractual payments;

- Loan is identified as restructured; and

- Loan is identified as forbearance.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for the internal credit risk management purpose.

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining appropriate models and assumption of the measurement of ECL

The ECL is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit risk has occurred since origination or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"). PD, EAD and LGD are defined as follows:

– The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD").

– LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by internal credit risk rating, observed historical data and macroeconomic variables. The relationship between PD and macroeconomic variables is developed by the statistical regression model and the lifetime PD is derived by input of forward-looking macroeconomic variables.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type.

Loans and advances

– For non-revolving products, this is based on the outstanding balance owed by the borrower over a 12-month or lifetime basis.

– For revolving products, the exposure at default is predicted by taking current drawn balance and adding an "adjustment factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Treasury

For treasury portfolios, the 12-month and lifetime EADs are calculated depending on the product type and booking type.

Measurement of LGD

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

– For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales and time to recovery observed.

– For unsecured products, LGD are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD are influenced by collection strategies. Historical data and Basel model requirement are analysed to derive the LGD.

– For Stage 3 account, other expected future cash flow may also take into consideration if any repayment schedule is confirmed.

The assumptions underlying the ECL calculation are monitored and reviewed regularly. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

Incorporating forward-looking information into the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The forward-looking element is reflected through the impact on PD and LGD models.

The economic variables and their associated impact on PD and LGD vary by financial instruments. Regression analysis was applied to select the most significant economic factors impacting the PD and LGD for each portfolio and to determine their associated impact on PD and LGD. This process involved experts' judgments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Incorporating forward-looking information into the ECL models (Continued)

The forward-looking element is reflected by applying the forecasts of the economic variables included in the PD and LGD models. Forecasts of these economic variables are sourced from a leading economic forecasting provider.

According to the HKFRS 9, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. The Group applied three macroeconomic scenarios, namely the Good scenario, the Base scenario and the Bad scenario at the end of 2024.

Good, Base and Bad Scenarios

The Good scenario reflects the optimistic view of the future performance of the economy, while the Base scenario reflects the average performance of the economy in future. The Bad scenario assumes the potential economy downturn in future. In this scenario setting process, the Group considered the current economic environment, market forecasts in coming year and management's views on economic outlook.

For Base Scenario, it is set to reflect the current economic environment with consideration of the market forecast on domestic Real GDP YoY Growth Rate would maintain at the similar level in coming years. For Bad Scenario, it was assumed that the economy entered a downturn. Under Bad Scenario, domestic GDP YoY Growth Rate was considered to drop to the extent with negative growth resulting from the high interest rate and external challenges like US-China trade tensions. For Good scenario, it featured stronger economic activity in the near term as the entire economy has bottomed out during the late stage of local epidemic.

The weighting of each scenario is determined by management judgments with consideration of geographic sectors, macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions

The Group has included various economic forecast variables in the forward-looking models to estimate the ECL for different portfolios. When assessing the significance of assumptions for the ECL estimate, the Group has considered the extent of the usage of the economic variables and the ECL impact of the corresponding portfolio.

Corporate and Treasury portfolios account for the majority of ECL. Key economic factors as significant to ECL are summarised as follows:

– Hong Kong economic variables – GDP YoY Change %, Property Price QoQ Change % and Hong Kong Unemployment Rate

– Mainland China's economic variables – GDP QoQ Change % and China Unemployment Rate

GDP (YoY/QoQ) Change %

GDP Change % is one of key economic variables reflecting the economic environment. It has significant impact on companies' performance. The domestic GDP of Hong Kong and Mainland China impacts their PD estimation respectively.

Unemployment Rate

Same as GDP, the Unemployment Rate of Hong Kong and Mainland China impacts their PD estimation respectively. It has significant relationship with customers' repayment ability.

Property Price QoQ Change %

Property Price is another key economic variable reflects the economic environment. It impacts both PD and LGD estimations. Collateral value would be inflated when property market is positive and hence lowers the LGD.

The trends of the economic variables are critical to ECL estimate, therefore, assumptions are presented individually for years of 2024, 2025 and 2026.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

The most significant period-end assumptions used for ECL are set out below, in which annual average refers to the average of four quarter-end forecasts for the macroeconomic values.

	Scenario	2024 (Annual average)	2025 (Annual average)	2026 (Annual average)
Hong Kong Forecast Factors				
GDP YoY Change %	Base	2.52%	3.04%	2.85%
	Good	2.52%	7.42%	5.82%
	Bad	2.52%	-5.50%	-2.95%
Unemployment rate	Base	3.00%	2.93%	2.90%
	Good	3.00%	2.31%	2.12%
	Bad	3.00%	4.59%	5.06%
Property price QoQ Change %	Base	-1.89%	2.59%	1.45%
	Good	-1.89%	3.84%	2.63%
	Bad	-1.89%	-0.10%	-0.57%
Mainland China Forecast Factors				
GDP QoQ Change %	Base	1.21%	1.03%	1.05%
	Good	1.21%	2.25%	1.40%
	Bad	1.21%	-1.53%	0.26%
Unemployment rate	Base	4.16%	4.09%	4.04%
	Good	4.16%	3.73%	3.47%
	Bad	4.16%	4.71%	5.49%

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

As of 31 December 2024, the ECL estimate of Stage 1 and Stage 2 was HK$916 million (2023: HK$929 million) with the probability weighting assigned as shown in the table below.

	Scenario	2023 Weighting	2024 Weighting
Hong Kong portfolio Scenario Weighting	Base	80%	**80%**
	Good	10%	**10%**
	Bad	10%	**10%**
Mainland China portfolio Scenario Weighting	Base	80%	**80%**
	Good	10%	**10%**
	Bad	10%	**10%**

– By assuming 5% scenario weight shift between Base scenario and Bad scenario, there would be an increase/decrease in expected credit loss by approximately HK$19.1 million as of 31 December 2024 (2023: HK$18.0 million).

As of 31 December 2024, the most significant assumptions used for the ECL estimate were set out below:

	Scenario	Average (2024–2026)
Hong Kong Forecast Factor		
GDP YoY Change %	Base	2.80%
	Good	5.25%
	Bad	–1.98%
Mainland China Forecast Factor		
GDP QoQ Change %	Base	1.10%
	Good	1.62%
	Bad	–0.02%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Management judgment and overlay

As of 31 December 2024 and 2023, the Group makes a post-model overlay for its Mainland China portfolio to factor in the latest default experience of its China real estate sectors as the models might not be robust enough to capture the unprecedented challenges in China real estate sectors amid limited historical default data.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments. For advances to customers and loan commitments and financial guarantee contracts, credit rating from "Guideline on loan classification system" issued by Hong Kong Monetary Authority is adopted. For debt securities, balances and placements with banks, credit rating from Moody's, or equivalent, is adopted. Debt securities not rated by Moody's, or equivalent, are treated as unrated ones. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Advances to customers

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	149,690,936	5,487,142	–	155,178,078
Special mention	–	953,240	493,231	1,446,471
Substandard	–	–	1,150,239	1,150,239
Doubtful	–	–	3,461,890	3,461,890
Loss	–	–	13,712	13,712
Gross carrying amount at 31 December	149,690,936	6,440,382	5,119,072	161,250,390
Impairment allowance	538,403	200,033	1,889,043	2,627,479
Carrying amount at 31 December	149,152,533	6,240,349	3,230,029	158,622,911

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	148,411,467	6,792,361	–	155,203,828
Special mention	–	2,294,247	99,950	2,394,197
Substandard	–	–	2,586,362	2,586,362
Doubtful	–	–	1,980,288	1,980,288
Loss	–	–	946	946
Gross carrying amount at 31 December	148,411,467	9,086,608	4,667,546	162,165,621
Impairment allowance	528,717	238,665	1,547,488	2,314,870
Carrying amount at 31 December	147,882,750	8,847,943	3,120,058	159,850,751

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the consolidated statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2024, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$2,556,000 (2023: HK$17,468,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Debt securities

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
External credit rating				
Aaa	1,784,744	–	–	1,784,744
Aa1 to Aa3	12,418,202	–	–	12,418,202
A1 to A3	29,597,825	–	–	29,597,825
Lower than A3	7,055,566	358,001	–	7,413,567
Unrated	1,444,278	–	–	1,444,278
Gross carrying amount at 31 December	52,300,615	358,001	–	52,658,616
Impairment allowance				
– for debt securities at amortised cost	1,729	–	–	1,729
– for debt securities at FVOCI	36,756	16,304	–	53,060
Carrying amount at 31 December	52,298,886	358,001	–	52,656,887

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
External credit rating				
Aaa	2,005,578	–	–	2,005,578
Aa1 to Aa3	17,190,670	–	–	17,190,670
A1 to A3	36,879,058	–	–	36,879,058
Lower than A3	6,722,083	328,245	–	7,050,328
Unrated	1,957,716	–	–	1,957,716
Gross carrying amount at 31 December	64,755,105	328,245	–	65,083,350
Impairment allowance				
– for debt securities at amortised cost	6,293	–	–	6,293
– for debt securities at FVOCI	49,078	19,486	–	68,564
Carrying amount at 31 December	64,748,812	328,245	–	65,077,057

The impairment allowances of debt securities at FVOCI are not recognised in the consolidated statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Loan commitments and financial guarantee contracts

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	12,723,994	549,629	–	13,273,623
Special mention	–	–	–	–
Substandard	–	–	122,100	122,100
Doubtful	–	–	–	–
Loss	–	–	–	–
At 31 December	12,723,994	549,629	122,100	13,395,723
Impairment allowance	35,954	39,060	37,682	112,696

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	13,640,413	615,525	–	14,255,938
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
At 31 December	13,640,413	615,525	–	14,255,938
Impairment allowance	25,761	3,742	–	29,503

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Other financial assets

Other financial assets mainly include balances and placements with banks and other receivables. The Group held balances and placements with banks of HK$92,356,212,000 as of 31 December 2024 (2023: HK$65,005,319,000), which are rated at investment grade based on Moody's or equivalent ratings. The placements with banks is neither past due nor impaired and unsecured.

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	2024 HK$'000	2023 HK$'000
Financial assets at fair value through profit or loss		
– Debt securities	1,278,428	2,072,530
– Other securities	2,762,451	1,321,193
– Derivatives	1,901,446	1,034,438
Hedging derivatives	231,541	371,016

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

– Mortgages over residential properties;

– Margin agreement for derivatives, for which the Group has also entered into master netting agreements;

– Charges over business premises; and

– Charges over financial instruments such as debt securities and equities.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements (Continued)

Collateral held as securities for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Derivatives under International Swap and Derivatives Association ("ISDA") credit support annex, such as Credit Support Annex ("CSA"), Credit Support Annex for Variation Margin ("VMCSA") and etc, are also collateralised.

As of 31 December 2024, the fair value of collateral accepted by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$1,702,328,000 (2023: HK$1,498,346,000). As of 31 December 2024, the Group had not sold or re-pledged such collateral (2023: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements (Continued)

Credit-impaired assets

	2024				
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000	Gross exposure covered by collateral held HK$'000 Note
Loans and advances to customers					
Overdrafts	9,779	(7,972)	1,807	2,555	2,555
Instalment loans	204,034	(16,003)	188,031	472,155	203,799
Term loans	930,244	(351,891)	578,353	258,890	222,800
Syndication loans	3,942,395	(1,487,085)	2,455,310	1,274,075	1,222,167
Trade finance	31,687	(25,521)	6,166	8,357	8,357
Personal loans and tax loans	641	(279)	362	654	532
Other	292	(292)	–	–	–
Total credit-impaired assets	5,119,072	(1,889,043)	3,230,029	2,016,686	1,660,210

	2023				
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000	Gross exposure covered by collateral held HK$'000 Note
Loans and advances to customers					
Overdrafts	25,075	(15,077)	9,998	11,191	11,179
Instalment loans	191,563	(3,293)	188,270	393,865	189,094
Term loans	983,945	(427,363)	556,582	39,439	39,439
Syndication loans	3,406,617	(1,067,265)	2,339,352	511,534	511,534
Trade finance	59,054	(33,797)	25,257	28,071	28,026
Personal loans and tax loans	803	(204)	599	1,343	639
Other	489	(489)	–	–	–
Total credit-impaired assets	4,667,546	(1,547,488)	3,120,058	985,443	779,911

Note: Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance

The following tables explain the changes in gross exposure and the impairment allowance between the beginning and the end of the annual period due to these factors:

Advances to customers

	2024							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000
Balance at 1 January	148,411,467	546,185	9,086,608	238,665	4,667,546	1,547,488	162,165,621	2,332,338
Transfers:								
Transfer from Stage 1 to Stage 2	(1,696,609)	(3,111)	1,696,609	80,803	–	–	–	77,692
Transfer from Stage 2 to Stage 1	2,756,220	5,608	(2,756,220)	(18,093)	–	–	–	(12,485)
Transfer to Stage 3	(1,253,495)	(10,334)	(1,227,295)	(91,202)	2,480,790	996,748	–	895,212
Transfer from Stage 3	12,905	6	13,317	43	(26,222)	(298)	–	(249)
Net new financial assets originated (asset derecognised)	6,664,906	63,983	(406,378)	(4,366)	(356,521)	–	5,902,007	59,617
Changes in PDs/LGDs/EADs	(1,400,038)	(81,387)	179,737	5,118	411,003	1,389,652	(809,298)	1,313,383
Changes in model assumption and methodologies	–	39,152	–	(7,980)	–	–	–	31,172
Amounts written off	–	–	–	–	(2,052,062)	(2,052,062)	(2,052,062)	(2,052,062)
Other movements	(3,804,420)	(19,143)	(145,996)	(2,955)	(5,462)	7,515	(3,955,878)	(14,583)
Balance at 31 December	149,690,936	540,959	6,440,382	200,033	5,119,072	1,889,043	161,250,390	2,630,035

	Total HK$'000
Change in ECL in income statement charge for the year	2,364,342
Add: Recoveries	(17,441)
Add: Others	(45,059)
Total ECL charge for the year	2,301,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Advances to customers (Continued)

	2023							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000
Balance at 1 January	156,659,000	575,759	5,566,569	210,812	4,478,564	2,068,076	166,704,133	2,854,647
Transfers:								
Transfer from Stage 1 to Stage 2	(3,329,927)	(9,958)	3,329,927	125,393	–	–	–	115,435
Transfer from Stage 2 to Stage 1	122,889	75	(122,889)	(1,193)	–	–	–	(1,118)
Transfer to Stage 3	(2,571,300)	(11,150)	(750,083)	(139,676)	3,321,383	1,529,391	–	1,378,565
Transfer from Stage 3	6,895	2	4,818	10	(11,713)	(37)	–	(25)
Net new financial assets originated (asset derecognised)	10,962,581	41,436	1,614,666	48,916	(42,906)	(169,552)	12,534,341	(79,200)
Changes in PDs/LGDs/EADs	(11,925,085)	(82,112)	(549,847)	(3,058)	(5,458)	1,191,934	(12,480,390)	1,106,764
Changes in model assumption and methodologies	–	40,134	–	(1,334)	–	–	–	38,800
Amounts written off	–	–	–	–	(3,072,324)	(3,072,324)	(3,072,324)	(3,072,324)
Other movements	(1,513,586)	(8,001)	(6,553)	(1,205)	–	–	(1,520,139)	(9,206)
Balance at 31 December	148,411,467	546,185	9,086,608	238,665	4,667,546	1,547,488	162,165,621	2,332,338
								Total HK$'000
Change in ECL in income statement charge for the year								2,559,221
Add: Recoveries								(59,871)
Add: Others								446
Total ECL charge for the year								2,499,796

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2024, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$2,556,000 (2023: HK$17,468,000).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Debt securities

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	55,371	19,486	–	74,857
Transfers:				
Transfer from Stage 1 to Stage 2	(106)	1,399	–	1,293
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	(16,272)	(263)	–	(16,535)
Changes in PDs/LGDs/EADs	897	(4,127)	–	(3,230)
Changes in model assumption and methodologies	–	–	–	–
Other movements	(1,405)	(191)	–	(1,596)
Balance at 31 December	38,485	16,304	–	54,789
Of which:				
For debt securities at amortised cost	1,729	–	–	1,729
For debt securities at FVOCI	36,756	16,304	–	53,060
	38,485	16,304	–	54,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Debt securities (Continued)

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	104,935	1,130	–	106,065
Transfers:				
Transfer from Stage 1 to Stage 2	(679)	11,470	–	10,791
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	14,256	5,946	–	20,202
Changes in PDs/LGDs/EADs	(62,907)	948	–	(61,959)
Changes in model assumption and methodologies	–	–	–	–
Other movements	(234)	(8)	–	(242)
Balance at 31 December	55,371	19,486	–	74,857
Of which:				
For debt securities at amortised cost	6,293	–	–	6,293
For debt securities at FVOCI	49,078	19,486	–	68,564
	55,371	19,486	–	74,857

The impairment allowances of debt securities at FVOCI are not recognised in the consolidated statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Loan commitments and financial guarantee contracts

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	25,761	3,742	–	29,503
Transfers:				
Transfer from Stage 1 to Stage 2	(780)	44,182	–	43,402
Transfer from Stage 2 to Stage 1	5	(584)	–	(579)
Transfer to Stage 3	(1,220)	–	1,220	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	3,852	(6,722)	36,462	33,592
Changes in model assumption and methodologies	2,720	(1,554)	–	1,166
Other movements	5,616	(4)	–	5,612
Balance at 31 December	35,954	39,060	37,682	112,696

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	32,962	5,890	–	38,852
Transfers:				
Transfer from Stage 1 to Stage 2	(259)	332	–	73
Transfer from Stage 2 to Stage 1	3	(414)	–	(411)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	(2,092)	(2,008)	–	(4,100)
Changes in model assumption and methodologies	(4,422)	(33)	–	(4,455)
Other movements	(431)	(25)	–	(456)
Balance at 31 December	25,761	3,742	–	29,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Other financial assets

	2024			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	39,533	–	–	39,533
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	4,541	–	–	4,541
Changes in model assumption and methodologies	–	–	–	–
Other movements	227	–	–	227
Balance at 31 December	44,301	–	–	44,301

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	44,732	–	–	44,732
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	(5,811)	–	–	(5,811)
Changes in model assumption and methodologies	–	–	–	–
Other movements	612	–	–	612
Balance at 31 December	39,533	–	–	39,533

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2024				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000	Gross impaired advances HK$'000 *(Note 1)*
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,540,240	25,999	176,570	1,387,845	795,023
– Property investment	5,252,736	14,130	44	4,290,719	3,197
– Financial concerns	16,187,126	2,973	–	101,671	–
– Stockbrokers	2,255,203	607	–	9,229	–
– Wholesale and retail trade	5,748,205	21,332	6,466	2,831,720	8,144
– Manufacturing	1,728,521	7,634	–	393,517	–
– Transport and transport equipment	3,611,383	8,056	15	270,456	71
– Information technology	2,789,394	10,527	–	–	–
– Others *(Note 2)*	14,360,855	80,606	200,563	7,778,783	595,731
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	252,865	190	109	250,557	5,049
– Loans for the purchase of other residential properties	10,488,944	7,070	1,586	10,386,760	38,139
– Credit card advances	59,073	77	348	–	369
– Others *(Note 3)*	5,233,580	12,254	2,499	4,481,467	79,187
	72,508,125	191,455	388,200	32,182,724	1,524,910
Trade finance	2,505,549	9,092	25,521	183,583	31,687
Loans for use outside Hong Kong	86,236,716	540,445	1,475,322	24,380,633	3,562,475
	161,250,390	740,992	1,889,043	56,746,940	5,119,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

	31 December 2023				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000	Gross impaired advances HK$'000 *(Note 1)*
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,736,383	33,243	6,411	2,575,257	11,443
– Property investment	4,922,367	16,395	–	3,591,533	2,037
– Financial concerns	13,052,347	2,215	–	333,298	–
– Stockbrokers	1,742,202	603	–	1,226,676	–
– Wholesale and retail trade	5,664,090	15,858	56,908	2,845,889	66,012
– Manufacturing	2,273,619	6,674	–	709,283	–
– Transport and transport equipment	3,790,413	5,527	–	311,718	167
– Information technology	2,033,596	2,328	–	978,848	2,893
– Others *(Note 2)*	12,973,443	60,909	75,661	6,221,212	75,665
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	281,352	144	–	281,354	4,252
– Loans for the purchase of other residential properties	7,679,706	3,729	2,822	7,670,875	34,312
– Credit card advances	61,794	57	578	–	578
– Others *(Note 3)*	4,927,791	7,617	3,264	2,815,755	86,509
	64,139,103	155,299	145,644	29,561,698	283,868
Trade finance	1,755,900	6,293	29,637	255,306	65,622
Loans for use outside Hong Kong	96,270,618	623,258	1,372,207	22,343,128	4,318,056
	162,165,621	784,850	1,547,488	52,160,132	4,667,546

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2024, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$2,556,000 (2023: HK$17,468,000).

Notes:

1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.
2. Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.
3. Major items mainly included loans to professionals and other individuals for various private purposes.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Write-off

The Group may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2024 were HK$2,052,062,000 (2023: HK$3,072,324,000).

The Group still seeks to recover amounts it is legally owed in full, but which have been fully written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as of 31 December 2024 was HK$897,034,000 (2023: HK$777,869,000).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of individual credit assessment.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year and their respective effect on the Group's financial performance is considered immaterial.

	2024 HK$'000	2023 HK$'000
Advance to customers		
Amortised cost before modification	305,376	691,245

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's financial assets that best represent the maximum exposure to credit risk is disclosed on the next page.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical locations

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000 *(Note 1)*	Others HK$'000 *(Note 2)*	Total HK$'000
At 31 December 2024				
Balances and placements with banks	26,038,353	58,234,904	8,044,972	92,318,229
Derivative financial instruments	615,780	244,510	1,272,697	2,132,987
Investment in securities	9,793,923	44,685,903	2,217,940	56,697,766
Advances and other accounts	104,879,500	59,999,711	1,949,004	166,828,215
	141,327,556	163,165,028	13,484,613	317,977,197
At 31 December 2023				
Balances and placements with banks	10,056,973	45,381,605	9,537,573	64,976,151
Derivative financial instruments	122,011	231,955	1,051,488	1,405,454
Investment in securities	14,361,026	46,348,923	7,760,831	68,470,780
Advances and other accounts	105,677,242	60,429,094	1,111,848	167,218,184
	130,217,252	152,391,577	19,461,740	302,070,569

Notes:

1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.

2. The countries reported in "Others" mainly included Canada, United States and other European countries.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sectors

	Banks and other financial institutions HK$'000	Central governments and central banks HK$'000	Public sector entities HK$'000	Corporate entities HK$'000	Others HK$'000	Total HK$'000
At 31 December 2024						
Balances and placements with banks	88,968,457	3,349,772	–	–	–	92,318,229
Derivative financial instruments	2,095,606	–	–	37,381	–	2,132,987
Investment in securities	22,372,593	24,108,724	75,479	10,140,970	–	56,697,766
Advances and other accounts	15,055,883	3,089,975	1,070,683	130,416,183	17,195,491	166,828,215
	128,492,539	30,548,471	1,146,162	140,594,534	17,195,491	317,977,197
At 31 December 2023						
Balances and placements with banks	59,310,783	5,665,368	–	–	–	64,976,151
Derivative financial instruments	1,145,190	–	–	260,264	–	1,405,454
Investment in securities	31,762,068	26,606,698	–	10,102,014	–	68,470,780
Advances and other accounts	14,967,414	3,075,825	201,786	134,883,714	14,089,445	167,218,184
	107,185,455	35,347,891	201,786	145,245,992	14,089,445	302,070,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group by rating agency designation at the end of the reporting period, based on Moody's or equivalent ratings. Financial securities not rated by Moody's, or equivalent, are treated as unrated ones.

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
At 31 December 2024				
Aaa	–	1,784,744	–	1,784,744
Aa1 to Aa3	–	12,009,167	409,035	12,418,202
A1 to A3	3,501,064	28,506,854	1,089,242	33,097,160
Lower than A3	444,592	7,316,669	96,898	7,858,159
Unrated	95,223	1,442,278	2,000	1,539,501
Total	4,040,879	51,059,712	1,597,175	56,697,766
At 31 December 2023				
Aaa	–	2,005,578	–	2,005,578
Aa1 to Aa3	–	16,602,368	588,036	17,190,404
A1 to A3	2,863,892	34,189,231	2,685,111	39,738,234
Lower than A3	495,300	6,553,970	495,201	7,544,471
Unrated	34,531	1,955,562	2,000	1,992,093
Total	3,393,723	61,306,709	3,770,348	68,470,780

Repossessed collateral

Repossessed assets held by the Group as of 31 December 2024 was HK$3,700,000 (2023: HK$38,000,000).

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from proprietary trading position, market-making and warehousing of customer derived positions. Market risk arising from trading portfolios is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate risk exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as FVOCI and amortised cost, and exposures arising from our daily risk management operations.

From time to time, the Group may use derivatives to mitigate market risk exposure driven by price fluctuation in interest rate and foreign exchange rate affecting trading and non-trading portfolios.

GOVERNANCE COMMITTEE OVERSIGHT

The Board Risk Committee oversees the effective management of market risk. The Board delegates responsibilities to the Risk Management Committee ("RMC") to act as the primary risk governance party for market risk. RMC approves the Market Risk Management Policy to ensure the market risk management framework and controls are effectively implemented to govern the market risk profile of the Bank. The Policy, together with limits and underlying assumptions therein, is subject to be regularly reviewed and approved by the RMC at least once a year.

ROLES AND RESPONSIBILITIES

Market risk management operates under the three lines of defense model. The business constitutes the first line of defense and is responsible for managing risks within approved limits. The risk management function serves as the second line control function, providing independent monitoring and oversight. The audit function acts as the third line of defense assessing and verifying the implementation of controls and measures in accordance with regulatory requirements.

MARKET RISK MANAGEMENT FRAMEWORK

The primary categories of market risk for the group are as follows:

- Interest rate risk: arising from changes in yield curves

- Foreign exchange rate risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options

- Credit spread risk: arising from changes in credit spreads

Market risk limits are classified into Risk Appetite Statements limits (approved by the Risk Committee), Risk Appetite Controls and the lower operating level limits (approved by the RMC).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK MANAGEMENT FRAMEWORK *(Continued)*

Risk Appetite Statements limits – VaR

A historical VaR model is used to estimate potential losses on risk positions in the trading portfolio as a result of movements of various risk factors over a specified time horizon (3 years) and to a given level of confidence (99%). The Group has maintains a controllable of market risk exposure for both trading and customer order fulfillment managed by the Treasury and Markets Division within approved limits in day-to-day business. VaR is calculated as at the close of business to reflect the expected movements over one business day and to a confidence level of 99% for day-to-day risk management.

Risk Appetite Controls and Operating Limits

Various lower level limits, such as stop loss, currency position limit, interest rate risk DV01, credit spread risk CS01, greeks and etc, are set to monitor different types nature of risks. These limits are allocated to different business lines. Daily risk monitoring is carried out independently by Market Risk Management Department, ensuring that all dealing activities are conducted in a proper manner and within approved limits.

The Bank adopts a scenario-based approach in stress-testing. Stress tests are performed regularly to assess potential losses under extreme market conditions. The results of stress test are reviewed by the Board, Risk Committee and senior management on a regular basis.

Excess Reporting

A limit excess is denoted as a risk exposure exceed the respective risk limit. Excesses are classified as active, passive and technical. In the case of active and passive excesses, the RMC and the respective head of division are immediately notified, and corrective actions must be taken within the same trading day or the very next trading day. Excess cases will be tabled in the upcoming RMC meetings for discussion and notation. Technical excess, resulting from system and data errors, case will be investigated and reported to the RMC for notation.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Currency risk

The assets and liabilities of the Group are mainly denominated in major currencies, particularly United States dollars ("USD"), Renminbi ("RMB") and Hong Kong dollars ("HKD"). To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VaR limit) are used to serve as a monitoring tool. The Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts are used to manage currency risk associate with foreign currency-denominated assets and liabilities.

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position.

The Group's foreign currency exposures arising from non-structural position which constitute 10% or more of the total net non-structural position in all foreign currencies are as follows:

	2024	
	USD	RMB
	HK$'000	HK$'000
Spot assets	65,871,167	108,348,395
Spot liabilities	(48,850,934)	(111,129,079)
Forward purchases	198,795,208	46,189,367
Forward sales	(207,406,247)	(40,295, 099)
Net options position	823,639	(176,542)
Net long position	9,232,833	2,937,042

	2023	
	USD	RMB
	HK$'000	HK$'000
Spot assets	67,077,959	95,913,359
Spot liabilities	(48,159,916)	(94,421,850)
Forward purchases	128,470,822	17,542,632
Forward sales	(140,388,393)	(16,980,559)
Net options position	1,791,541	2,174
Net long position	8,792,013	2,055,756

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Currency risk (Continued)

The net options position is calculated in the basis of the delta-weighted position of option contracts.

The Group's foreign currency exposures arising from structural position which constitute 10% or more of the total net structural position in all foreign currencies are as follows:

	2024		2023	
	USD	RMB	USD	RMB
	HK$'000	HK$'000	HK$'000	HK$'000
Net structural position	455,330	3,700,900	459,778	4,042,453

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favor of the Bank, but also result negative impacts in the event that unexpected or adverse movement arises.

Interest rate risk comprises those originating from both trading and non-trading portfolios, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the management of Group's interest rate risk in banking book ("IRRBB") is governed by the Interest Rate Risk Management Policy which is reviewed and endorsed by the ALCO and approved by the Executive Committee ("EXCO"). The Group also manages its IRRBB within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight.

The Group manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary.

Interest rate risk in banking book

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

The Group manages its IRRBB exposures using economic value as well as earnings based measures.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk (Continued)

Interest rate risk in banking book (Continued)

The economic value is measured from present values of its expected net cash flows of assets, liabilities and off-balance sheet positions held with the Bank, discounted to reflect market rates impact. Thereby the Group measures the change in Economic Value of Equity ("EVE") as the maximum decrease of the banking book economic value under the six standard scenarios defined by the HKMA's Supervisory Policy Manual.

Earnings-based measures the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten the financial stability by undermining its capital adequacy and by reducing market confidence to the Bank. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

The calculation of the IRRBB gapping is processed through an automatic system on daily basis. Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cash flows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various models, including prepayment model, early-redemption model and behavioural models for non-maturity deposits ("NMDs").

The Group manages the interest rate risk exposure for its NMDs through co-integration Model for deposit volume on core deposit ratio and decay rate approach on behavioural maturity. For the core deposit ratio, the Group followed regulatory guidelines by first estimating stable deposit ratio using the Group's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Group aimed to measure the percentage of stable deposits that would remain with the bank even under significant interest rate changes. In estimating behavioural maturity, the Group followed the run-off approach, which estimates the decay rate of the deposit balance. The behavioural maturity was obtained based on the decay-rate estimation.

In the retail loan and term deposit products, the Group takes into accounts of early prepayment/withdrawal behaviour of its customers. The parameters are based on historical observations and statistical analyses. Furthermore, the Group generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive with forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Group conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk (Continued)

Interest rate sensitivity

The framework adopted by the Group to measure interest rate risk exposure arising from its banking book positions is consistent with the guidelines set out by the HKMA in its Supervisory Policy Manual ("SPM") on Interest Rate Risk in the Banking Book. Sensitivities of earnings or economic value of equity ("EVE") to interest rate changes by specific size of interest rate parallel shocks, which the most adverse of the six interest rate scenarios with regard to delta EVE was the "Parallel up" scenario, and key assumptions as required by SPM are summarised below:

	2024				
	HKD HK$'000	USD HK$'000	CNY HK$'000	AUD HK$'000	CNH HK$'000
Size of interest rate parallel shocks (bps)	200	200	250	250	300
Impact on earnings over the next 12 months (parallel up)	(745,000)	(94,000)	(20,000)	4,000	5,000
Impact on EVE (parallel up)	–	3,000	1,076,000	3,000	–

	2023		
	HKD HK$'000	USD HK$'000	CNY HK$'000
Size of interest rate parallel shocks (bps)	200	200	250
Impact on earnings over the next 12 months (parallel up)	(91,000)	(871,000)	189,000
Impact on EVE (parallel up)	–	–	1,684,000

Note: Major currencies of the Group for the year 2024 are HKD, USD, Chinese Yuan Renminbi ("CNY"), Australian dollar ("AUD"), Chinese Yuan Renminbi Offshore ("CNH") whereas major currencies of the Group for the year 2023 are HKD, USD and CNY. Positive impact means unfavorable to the Group.

The key assumptions are as follows:

- exclusion of spread components in the cash flows used in the computation or discount rate either for △EVE;
- Determination of behavioural modelling in accordance with the Group's business regions;
- Estimation of the prepayment rates of customer loans and the early withdrawal rates for time deposits, the Group adopted the model derived at the account level with using logistic regression with clustered standard errors. The fixed-rate retail loan and retail term deposit portfolios were assumed to follow a run-off mode, with no new originations or auto-renewal in the forecast; and
- Estimation of behavioural maturity of HKD non-maturity deposits ("NMDs"), the Group adopted the run-off approach, which estimates the decay rate of the current and saving deposit respectively.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Price risk

The Group is exposed to price risk arising from the investments in listed equity securities. Except for those classified as FVPL, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2024 Change in price		2023 Change in price	
	+10% HK$'000	–10% HK$'000	+10% HK$'000	–10% HK$'000
Profit after tax	–	–	–	–
Other comprehensive income	2,247	(2,247)	3,054	(3,054)

LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to fund increases in assets or meet obligations as they fall due, without incurring unacceptable losses. Liquidity problems can have an adverse impact to the Group's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Group which is otherwise solvent.

Management of liquidity risk

Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Group conducts cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2"). This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

Governance of liquidity risk management

The Group adopts a robust liquidity risk appetite/tolerance including statutory liquidity ratios and key liquidity metrics to reasonably balance the levels of risk and earnings based on the Bank's own strategies, financial strength and market position, to ensure its ability to provide stable, reliable and sufficient sources of funds under normal or stressed scenarios, so as to satisfy liquidity requirements.

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and designated committees and approved by the Board at least annually. Key features of liquidity position and management strategies, risk appetite as well as, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The Board has the ultimate responsibility for liquidity risk management. The EXCO is delegated by the Board to oversee liquidity risk management. The ALCO is further delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through on-going and periodic review of different liquidity metrics, including but not limited to the statutory Liquidity Maintenance Ratio and Core Funding Ratio, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank/intragroup transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Division is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, Liquidity Maintenance Ratio, liquidity and funding statements.

The liquidity risk metrics are closely monitored and regularly reported to the ALCO and other designated committees. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or other designated committees, whilst seeking their advices or instructions on mitigating measures.

With the changing environment, market factors, balance sheet movement and liquidity situation, liquidity risk strategies are discussed in the ALCO meetings and communicated with the business lines, of which the heads are the ALCO members.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. They have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as of the end of the reporting period as stated in their contracts. The maturity dates are based on the agreed repayment dates.

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
Liabilities adjusted with interest payable								
At 31 December 2024								
Deposits and balances with banks and other financial institutions	23,818	14,144,002	2,827,392	528,828	–	–	–	17,524,040
Deposits from customers	65,502,194	53,627,861	80,972,330	26,960,101	20,711,672	–	–	247,774,158
Certificate of deposits	–	932,627	1,665,290	2,553,448	–	–	–	5,151,365
Loan capital	–	–	–	229,336	917,342	6,782,951	–	7,929,629
Other financial liabilities	1,596,544	483,962	956,461	941,300	998,505	17,302	425,366	5,419,440
Total undiscounted financial liabilities	67,122,556	69,188,452	86,421,473	31,213,013	22,627,519	6,800,253	425,366	283,798,632
Liabilities adjusted with interest payable								
At 31 December 2023								
Deposits and balances with banks and other financial institutions	791	8,527,360	6,028,565	2,093,195	–	–	–	16,649,911
Deposits from customers	71,367,629	56,106,319	74,696,245	26,937,792	12,207,675	–	–	241,315,660
Certificate of deposits	–	338,676	50,000	–	–	–	–	388,676
Loan capital	–	–	–	154,761	619,044	4,027,505	–	4,801,310
Other financial liabilities	1,308,643	798,498	1,827,098	491,759	407,596	48,591	296,321	5,178,506
Total undiscounted financial liabilities	72,677,063	65,770,853	82,601,908	29,677,507	13,234,315	4,076,096	296,321	268,334,063

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The following tables detail the Group's maturity analysis of undiscounted cash flows of its derivative financial instruments based on the remaining contracted maturity. They have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that are settled on a net basis and the undiscounted gross inflows (outflows) on those derivatives financial instruments that are settled on a gross basis. When the amount of cash inflows or outflows are not fixed or certain, the amount of expected cash flows has been determined with reference to the prevailing market rates and conditions which exist at the end of the reporting period.

	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2024						
Derivatives settled net						
Interest rate contracts						
– Inflows (outflows)	26,275	3,830	89,174	87,764	(547)	206,496
Derivatives settled gross						
Exchange rate contracts						
– Inflows	155,631,411	90,142,420	136,679,464	24,157,751	–	406,611,046
– Outflows	(155,168,785)	(89,970,092)	(136,621,356)	(24,152,930)	–	(405,913,163)
Foreign currency options						
– Inflows	5,612	8,719	633	790	–	15,754
– Outflows	(2,757)	(2,517)	(60)	–	–	(5,334)
	465,481	178,530	58,681	5,611	–	708,303
At 31 December 2023						
Derivatives settled net						
Interest rate contracts						
– Inflows	34,172	28,099	113,795	98,357	180	274,603
Derivatives settled gross						
Exchange rate contracts						
– Inflows	127,439,746	58,239,726	76,827,416	7,713,723	–	270,220,611
– Outflows	(127,462,150)	(58,088,813)	(76,833,752)	(7,689,393)	–	(270,074,108)
Foreign currency options						
– Inflows	706	4,237	7,539	2,028	–	14,510
– Outflows	(688)	(2,470)	(6,358)	(1,388)	–	(10,904)
	(22,386)	152,680	(5,155)	24,970	–	150,109

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The contractual amounts of the Group's commitments and contingencies unrecorded in the consolidated statement of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 35 to the consolidated financial statements and summarised in the table below:

	As at 31 December 2024 HK$'000	As at 31 December 2023 HK$'000
Direct credit substitutes	3,034,108	1,385,947
Trade-related contingencies	790,795	1,445,144
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	8,584,233	10,540,998
	12,409,136	13,372,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on- and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators ("EWIs") of which excesses should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions which give rise to the need of providing liquidity support.

Funding strategies

The Group has a strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit, repurchase agreements and swap markets. The Bank takes into account the maturity profile of funding. The funding strategy is formulated by the ALCO and delivered to Treasury Division and different business lines to execute. All of these are parts of the Group's funding strategy. To manage the funding diversification, a set of concentration indicators and EWIs is in place.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to pre-set limits so as to encourage them to source their own funding in the local markets.

Liquidity risk mitigation techniques

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Liquidity risk mitigation techniques (Continued)

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Basic Criteria	At 31 December 2024 HK$'000	At 31 December 2023 HK$'000
Tier 1	Debt Securities issued by sovereigns or central banks with 0% risk-weight	10,106,041	12,151,282
Tier 2	Other investment grade debt securities	12,214,125	16,584,863

The Group's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. The ALCO reviews the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the Supervisory Policy Manual ("SPM") LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO, the RMC and the EXCO, and approved by the RC.

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for the year ended 31 December 2024

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Stress-testing (Continued)

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioural assumptions are considered to address both funding and market liquidity risks. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain and Bank Run. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress-testing performed.

The Group's Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would take charge during liquidity crisis to ensure business continuity of the Group.

The Contingency Funding Plan is reviewed and updated at least annually to cope with required changes and improvements.

To ensure the Contingency Funding Plan remains practical and effective, drill test is conducted by the Group on an annual basis.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Analysis of assets and liabilities by remaining maturity

The maturity analysis of assets and liabilities shown on the consolidated statement of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2024								
Assets								
Cash and balances and placements with banks	14,339,077	64,130,640	12,730,132	1,649,864	–	–	–	92,849,713
Derivative financial instruments	–	794,539	428,022	628,133	271,326	10,967	–	2,132,987
Financial assets at fair value through profit or loss	–	2,299,671	317,442	1,012,289	393,733	17,166	578	4,040,879
Financial assets measured at FVOCI	–	9,528,187	3,727,117	15,198,904	21,071,812	1,533,692	898,083	51,957,795
Financial assets measured at amortised cost	–	62,989	285,653	1,000,891	245,642	2,000	–	1,597,175
Advances and other accounts	4,723,772	14,075,398	15,733,166	52,428,720	51,615,366	25,089,255	3,162,538	166,828,215
Total financial assets	19,062,849	90,891,424	33,221,532	71,918,801	73,597,879	26,653,080	4,061,199	319,406,764
Non-financial assets	–	–	–	–	–	–	2,457,368	2,457,368
Total assets	19,062,849	90,891,424	33,221,532	71,918,801	73,597,879	26,653,080	6,518,567	321,864,132
Liabilities								
Deposits and balances with banks and other financial institutions	23,818	14,082,557	2,809,096	528,700	–	–	–	17,444,171
Deposits from customers	65,501,963	53,355,931	80,717,147	26,876,744	20,692,291	–	–	247,144,076
Certificates of deposit	–	931,564	1,655,220	2,507,687	–	–	–	5,094,471
Derivative financial instruments	–	344,564	251,000	524,595	102,178	9,924	–	1,232,261
Loan capital	–	–	–	–	–	5,958,446	–	5,958,446
Lease liabilities	–	13,092	24,998	102,334	304,366	16,802	–	461,592
Other financial liabilities	1,596,544	469,719	929,286	829,164	639,023	500	425,366	4,889,602
Total financial liabilities	67,122,325	69,197,427	86,386,747	31,369,224	21,737,858	5,985,672	425,366	282,224,619
Non-financial liabilities	–	–	–	–	–	–	445,427	445,427
Total liabilities	67,122,325	69,197,427	86,386,747	31,369,224	21,737,858	5,985,672	870,793	282,670,046
Net position – total financial assets and liabilities	(48,059,476)	21,693,997	(53,165,215)	40,549,577	51,860,021	20,667,408	3,635,833	37,182,145
of which debt securities included in:								
FVOCI	–	9,528,187	3,727,117	15,198,904	21,071,812	1,533,692	–	51,059,712
Amortised cost	–	62,989	285,653	1,000,891	245,642	2,000	–	1,597,175
	–	9,591,176	4,012,770	16,199,795	21,317,454	1,535,692	–	52,656,887

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Analysis of assets and liabilities by remaining maturity (Continued)

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2023								
Assets								
Cash and balances and placements with banks	9,565,199	47,050,589	8,560,466	332,377	–	–	–	65,508,631
Derivative financial instruments	47,076	352,537	234,973	331,987	403,397	35,484	–	1,405,454
Financial assets at fair value through profit or loss	–	1,690,608	–	88,459	1,614,656	–	–	3,393,723
Financial assets measured at FVOCI	–	11,741,148	12,296,678	17,306,661	18,805,769	1,156,453	821,116	62,127,825
Financial assets measured at amortised cost	–	477,693	363,528	1,745,165	1,181,962	2,000	–	3,770,348
Advances and other accounts	2,661,254	8,835,660	16,213,051	44,241,154	58,464,006	33,503,989	3,299,070	167,218,184
Total financial assets	12,273,529	70,148,235	37,668,696	64,045,803	80,469,790	34,697,926	4,120,186	303,424,165
Non-financial assets	–	–	–	–	–	–	2,619,579	2,619,579
Total assets	12,273,529	70,148,235	37,668,696	64,045,803	80,469,790	34,697,926	6,739,765	306,043,744
Liabilities								
Deposits and balances with banks and other financial institutions	791	8,482,672	6,309,073	1,753,440	–	–	–	16,545,976
Deposits from customers	71,368,754	55,613,810	73,221,429	26,886,026	12,191,388	–	–	239,281,407
Certificates of deposit	–	336,202	51,213	–	–	–	–	387,415
Derivative financial instruments	–	372,670	118,884	268,174	147,219	12,958	–	919,905
Loan capital	–	–	–	–	–	3,384,753	–	3,384,753
Lease liabilities	–	14,920	26,495	111,081	384,229	22,103	–	558,828
Other financial liabilities	929,597	788,078	1,809,276	421,446	114,275	27,292	245,883	4,335,847
Total financial liabilities	72,299,142	65,608,352	81,536,370	29,440,167	12,837,111	3,447,106	245,883	265,414,131
Non-financial liabilities	–	–	–	–	–	–	356,190	356,190
Total liabilities	72,299,142	65,608,352	81,536,370	29,440,167	12,837,111	3,447,106	602,073	265,770,321
Net position – total financial assets and financial liabilities	(60,025,613)	4,539,883	(43,867,674)	34,605,636	67,632,679	31,250,820	3,874,303	38,010,034
of which debt securities included in:								
FVOCI	–	11,741,148	12,296,678	17,306,661	18,805,769	1,156,453	–	61,306,709
Amortised cost	–	477,693	363,528	1,745,165	1,181,962	2,000	–	3,770,348
	–	12,218,841	12,660,206	19,051,826	19,987,731	1,158,453	–	65,077,057

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Except as detailed in the following tables, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount		Fair value	
	2024 HK$'000	2023 HK$'000	2024 HK$'000	2023 HK$'000
Financial assets				
Investments in securities	**1,597,175**	3,770,348	**1,612,620**	3,789,412
Financial liabilities				
Loan capital	**5,958,446**	3,384,753	**6,116,646**	3,422,635

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2024				
Investments in securities	**1,612,620**	**–**	**–**	**1,612,620**
Loan capital	**–**	**6,116,646**	**–**	**6,116,646**
At 31 December 2023				
Investments in securities	3,789,412	–	–	3,789,412
Loan capital	–	3,422,635	–	3,422,635

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Please refer to next section for the definition of fair value hierarchy.

The fair values of listed equity securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of unlisted equity securities have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to determine comparable listed companies and to calculate appropriate price multiples. These multiples include i) the average of enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple, ii) the average price to earnings ("P/E") multiple and iii) the average price to book ("P/B") multiple. The multiples are calculated by dividing the enterprise value of the comparable company by the relevant measures. The multiples are then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple are applied to the corresponding measures of the unlisted equity investments to measure their fair values.

The fair values of other securities are measured with reference to quoted market prices of the underlying fund investments, which are observable at the end of the reporting period.

The fair values of debt securities and loan capital are determined based on prices obtained from pricing service providers. In addition, the Group makes comparison with the prices from other pricing service or indicative prices provided by dealers or brokers and with the values calculated using valuation models such as discounted cash flows method to the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of trade bills classified as FVOCI are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The fair values of foreign currency option contracts are measured by option pricing model with reference to the contractual exercise rates, the quoted forward exchange rates and the market volatilities, which are observable at the end of the reporting period.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. There were no changes in the Group's valuation techniques during the year.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group measures its investment properties, derivative financial instruments and Investment in securities (other than those measured at amortised cost) at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

The following tables give information about the fair value hierarchy of the Group's financial assets and financial liabilities at the end of each reporting periods.

	Fair value hierarchy Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2024				
Financial assets measured at fair value through profit or loss				
Debt securities	1,278,428	–	–	1,278,428
Other securities	–	2,762,451	–	2,762,451
Financial assets measured at FVOCI				
Equity securities	22,469	–	875,614	898,083
Debt securities	48,384,176	2,675,536	–	51,059,712
Trade bills	–	430,993	–	430,993
Deposits with banks measured at fair value through profit or loss	–	(1,029,876)	–	(1,029,876)
Derivative financial assets not used for hedging	–	1,901,446	–	1,901,446
Derivative financial assets used for hedging	–	231,541	–	231,541
Derivative financial liabilities not used for hedging	–	(1,210,279)	–	(1,210,279)
Derivative financial liabilities used for hedging	–	(21,982)	–	(21,982)
Total	49,685,073	5,739,830	875,614	56,300,517
At 31 December 2023				
Financial assets measured at fair value through profit or loss				
Debt securities	2,072,530	–	–	2,072,530
Other securities	–	1,321,193	–	1,321,193
Financial assets measured at FVOCI				
Equity securities	30,538	–	790,578	821,116
Debt securities	49,531,217	11,775,492	–	61,306,709
Trade bills	–	2,707,761	–	2,707,761
Derivative financial assets not used for hedging	–	1,034,438	–	1,034,438
Derivative financial assets used for hedging	–	371,016	–	371,016
Derivative financial liabilities not used for hedging	–	(890,002)	–	(890,002)
Derivative financial liabilities used for hedging	–	(29,903)	–	(29,903)
Net assets attributable to holders of non-controlling interests in consolidated investment funds included in other accounts and accruals	–	(25,124)	–	(25,124)
Total	51,634,285	16,264,871	790,578	68,689,734

There were no transfers between Levels 1, 2 and 3 during 2024 and 2023.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI HK$'000
Balance at 1 January 2023	176,303
Net fair value gain recognised in other comprehensive income	618,277
Exchange difference	(4,002)
Balance at 31 December 2023 and 1 January 2024	790,578
Net fair value gain recognised in other comprehensive income	111,383
Exchange difference	(26,347)
Balance at 31 December 2024	875,614

The majority of the Group's investments are valued based on quoted market information or observable market data.

The significant unobservable inputs and their range applied in the fair values measurement of the Group's Level 3 financial assets measured at FVOCI include price/earnings ratios of the appropriate comparables of 7.16x – 34.93x (2023: 6.55x – 37.83x), price/book values ratios of the appropriate comparables of 0.35x – 2.12x (2023: 0.39x – 4.11x), enterprise multiples of appropriate comparables of 3.00x – 5.90x (2023: 3.90x – 6.28x) and liquidity discount of 30%. The fair value is positively correlated to the price/earnings ratios, price/book values ratios and enterprise multiples of appropriate comparables and is negatively correlated to the liquidity discount used in the average of price/earnings ratios, price/book values ratios and enterprise multiples of comparables.

Had the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (2023: 5%), the Group's other comprehensive income would have increased by HK$63,193,000 and decreased by HK$61,326,000 respectively (2023: increased by HK$56,381,000 and decreased by HK$54,751,000 respectively).

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements of financial position; or

- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

The Group entered into ISDA Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the consolidated statement of financial position. However, they create a right of set off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not offset in the consolidated statement of financial position: Cash collateral received HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2024						
Derivative financial instruments	2,091,566	-	2,091,566	(747,568)	(870,558)	473,440
Advances to other financial institutions	1,603,018	-	1,603,018	(1,603,018)	-	-
Amounts due from HKSCC and brokerage clients	471,629	(225,832)	245,797	-	-	245,797
Total	4,166,213	(225,832)	3,940,381	(2,350,586)	(870,558)	719,237

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not offset in the consolidated statement of financial position: Cash collateral pledged HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2024						
Derivative financial instruments	1,131,399	-	1,131,399	(747,568)	(272,497)	111,334
Balances with banks and other financial institutions	6,620,718	-	6,620,718	(6,620,718)	-	-
Amounts due to HKSCC and brokerage clients	397,675	(225,832)	171,843	-	-	171,843
Total	8,149,792	(225,832)	7,923,960	(7,368,286)	(272,497)	283,177

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not offset in the consolidated statement of financial position: Cash collateral received HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2023						
Derivative financial instruments	1,395,124	–	1,395,124	(550,462)	(424,517)	420,145
Advances to other financial institutions	1,266,256	–	1,266,256	(1,266,256)	–	–
Amounts due from HKSCC and brokerage clients	284,913	(97,438)	187,475	–	–	187,475
Total	2,946,293	(97,438)	2,848,855	(1,816,718)	(424,517)	607,620

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not offset in the consolidated statement of financial position: Cash collateral pledged HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2023						
Derivative financial instruments	836,412	–	836,412	(550,462)	(189,188)	96,762
Balances with banks and other financial institutions	5,291,052	–	5,291,052	(5,291,052)	–	–
Amounts due to HKSCC and brokerage clients	215,835	(97,438)	118,397	–	–	118,397
Total	6,343,299	(97,438)	6,245,861	(5,841,514)	(189,188)	215,159

Note: The cash collateral received/pledged as of 31 December 2024 and 31 December 2023 represent its fair value.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured on the following basis:

– derivative financial instruments – fair value;

– advances to other financial institutions – amortised cost;

– balances with banks and other financial institutions – amortised cost; and

– amounts due from or due to HKSCC and brokerage clients – amortised cost.

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities.

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

Types of financial assets	2024 HK$'000	2023 HK$'000
Derivative financial instruments as stated above	**2,091,566**	1,395,124
Derivative financial instruments not in scope of offsetting disclosures	**41,421**	10,330
Total derivative financial instruments stated in note 18	**2,132,987**	1,405,454
Advances to other financial institutions as stated above	**1,603,018**	1,266,256
Total advances to other financial institutions stated in note 21	**1,603,018**	1,266,256
Amount due from HKSCC and brokerage clients as stated above	**245,797**	187,475
Other accounts not in scope of offsetting disclosures	**4,064,779**	4,019,440
Total other accounts stated in note 21	**4,310,576**	4,206,915

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2024 HK$'000	2023 HK$'000
Derivative financial instruments as stated above	1,131,399	836,412
Derivative financial instruments not in scope of offsetting disclosures	100,862	83,493
Total derivative financial instruments stated in note 18	1,232,261	919,905
Balances with banks and other financial institutions as stated above	6,620,718	5,291,052
Balances with banks and other financial institutions not in scope of offsetting disclosures	–	337,325
Total balances with banks and other financial institutions stated in note 26	6,620,718	5,628,377
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	171,843	118,397
Other accounts and accruals not in scope of offsetting disclosures	5,448,462	5,036,294
Total other accounts and accruals as stated in note 34	5,620,305	5,154,691

9. NET INTEREST INCOME

	2024 HK$'000	2023 HK$'000
Interest income		
Balances and placements with banks and advances to other financial institutions	**2,664,191**	1,771,734
Investments in securities	**1,910,896**	2,250,140
Loans and advances	**8,097,300**	8,553,504
	12,672,387	12,575,378
Interest expense		
Deposits and balances with banks and other financial institutions	**(298,626)**	(415,747)
Deposits from customers	**(7,256,471)**	(6,997,754)
Certificates of deposit	**(54,786)**	(49,540)
Loan capital	**(199,820)**	(104,755)
Lease liabilities	**(24,487)**	(22,815)
Other *(Note)*	**(2,088)**	(5,459)
	(7,836,278)	(7,596,070)
Net interest income	**4,836,109**	4,979,308
Included within interest income		
Interest income on impaired loans and advances	**239,817**	169,959

Included within interest income and interest expense are HK$12,672,387,000 (2023: HK$12,575,378,000) and HK$7,836,278,000 (2023: HK$7,596,070,000) earned and incurred from financial assets and financial liabilities that are not recognised at fair value through profit or loss, respectively.

Included within interest income is HK$1,910,896,000 (2023: HK$2,250,140,000) earned from investments in debt securities that are measured at amortised cost or at fair value through other comprehensive income.

Note: Details of other are as follows:

	2024 HK$'000	2023 HK$'000
Insurance finance expenses for insurance contracts held	**(2,453)**	(6,536)
Reinsurance finance income for reinsurance contracts held	**365**	1,077
Net insurance financial result	**(2,088)**	(5,459)

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10. NET FEE AND COMMISSION INCOME

	2024 HK$'000	2023 HK$'000
Fee and commission income		
Securities dealings and futures broking	90,100	79,795
Loans, overdrafts and guarantees	97,729	109,448
Trade finance	11,029	7,925
Credit card services	96,919	102,427
Agency services	109,784	73,438
Others	25,192	14,290
Total fee and commission income	430,753	387,323
Less: fee and commission expenses	(99,664)	(97,447)
Net fee and commission income	331,089	289,876
of which:		
Net fee and commission income, (other than amounts included in determining the effective interest rate), arising from financial assets and financial liabilities that are not at fair value through profit or loss		
– Fee income	116,224	122,031
– Fee expenses	(3,911)	(1,245)
	112,313	120,786

11. NET INCOME FROM TRADING AND INVESTMENTS

	2024 HK$'000	2023 HK$'000
Foreign exchange gains, net	489,999	407,111
Net gains on financial instruments mandatory classified at fair value through profit or loss	172,889	103,918
Net gains on financial instruments designated at fair value through profit or loss	69,670	18
Net gains (losses) on fair value hedge:		
– Net gains on hedged items attributable to the hedged risk	120,754	240,745
– Net (losses) on hedging instruments	(118,525)	(230,422)
Net gains on disposal of FVOCI debt securities	17,045	30,856
	751,832	552,226

"Foreign exchange gains, net" includes net gains and losses from translation of foreign currency monetary assets and liabilities amounting to losses of HK$1,233,650,000 (2023: losses of HK$623,446,000).

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency ("original currency") into another currency ("swap currency") at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the funds in the original currency and swap currency are recognised as "Foreign exchange gains, net".

Net gains on disposal of the FVOCI debt securities were included in the net income from trading and investments of the Group which form part of the business operation.

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12. OTHER OPERATING INCOME

	2024 HK$'000	2023 HK$'000
Dividend income		
– Listed investments	1,986	2,044
– Unlisted investments	8,172	16,733
	10,158	18,777
Gross rents from investment properties	7,865	7,625
Less: Outgoings	(107)	(430)
Net rental income	7,758	7,195
Net gain on disposal of financial instruments measured at amortised cost	67	–
Safe deposit box rentals	54,867	54,816
Insurance service result *(Note)*	20,556	21,493
Other banking services income	59,392	75,970
Others	2,134	3,215
	154,932	181,466

Note: Details of insurance service result are as follows:

	2024 HK$'000	2023 HK$'000
Insurance revenue	42,516	42,020
Insurance service expenses	(12,789)	(10,352)
Net expenses from reinsurance contracts held	(9,171)	(10,175)
Insurance service result	20,556	21,493

13. OPERATING EXPENSES

	2024 HK$'000	2023 HK$'000
Auditor's remuneration		
– Audit services	7,652	8,093
– Non-audit services	373	344
Total auditor's remuneration	8,025	8,437
Staff costs (including directors' emoluments)		
– Salaries and other costs	1,202,205	1,169,713
– Retirement benefits scheme contributions	77,927	74,215
Total staff costs	1,280,132	1,243,928
Depreciation		
– Property and equipment	81,931	85,466
– Right-of-use assets	152,881	166,410
	234,812	251,876
Amortisation of intangible assets	68,509	57,675
Premises and equipment expenses, excluding depreciation		
– Government rent and rates for premises	6,492	7,826
– Expenses relating to short-term leases	49	49
– Expenses relating to leases of low-value assets	71	71
– Others	7,359	6,859
	13,971	14,805
Other operating expenses	410,599	353,310
	2,016,048	1,930,031

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14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2024 HK$'000	2023 HK$'000
Loans and advances to customers	2,301,842	2,499,796
Investments in securities	(18,472)	(30,966)
Loan commitments and financial guarantee contracts	77,581	(8,893)
Other financial assets	4,541	(5,811)
	2,365,492	2,454,126

Other financial assets include balances and placements with banks and other receivables.

15. TAXATION

	2024 HK$'000	2023 HK$'000
The tax charge comprises:		
Hong Kong profits tax		
– Current year	123,331	91,311
– Under (over) provision in prior years	7,154	(13,971)
Overseas tax		
– Current year	35,177	115,903
– Under (over) provision in prior years	9,414	(9,020)
Deferred tax *(Note 32)*		
– Current year	(46,252)	(58,119)
	128,824	126,104

Hong Kong profits tax is calculated at 16.5% (2023: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

15. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the Group's profit before taxation in the consolidated income statement as follows:

	2024 HK$'000	2023 HK$'000
Profit before taxation	**1,719,839**	1,567,874
Tax at the domestic income tax rate of 16.5% (2023: 16.5%)	**283,773**	258,699
Tax effect of share of (profit) losses of associates	**(10,057)**	7,095
Tax effect of expenses not deductible	**41,939**	53,163
Tax effect of income not taxable	**(157,921)**	(136,923)
Adjustment in respect of distribution paid on additional equity instruments	**(50,685)**	(50,681)
Under (over) provision in prior years	**16,568**	(22,991)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	**8,193**	25,818
Utilisation of tax loss previously not recognised	**(2,986)**	(8,076)
Tax charge for the year	**128,824**	126,104
Effective tax rate	**7.49%**	8.04%

Since the Pillar Two legislation was not effective at the reporting date in the jurisdiction which the Bank is incorporated, the Group has no related current tax exposure or applied exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. The Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect.

16. DIVIDENDS

	2024 HK$'000	2023 HK$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
Interim	**160,000**	180,000
Final	**150,000**	130,000
	310,000	310,000

Subsequent to the end of the reporting period, final dividend of HK$210,000,000, in respect of the current financial year (2023: HK$150,000,000) has been recommended by the Board.

At the Board meeting on 2 September 2024, the Board declared a total amount of interim dividend of HK$160,000,000 (2023: HK$180,000,000). The interim dividend was paid on 18 December 2024.

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17. CASH AND BALANCES AND PLACEMENTS WITH BANKS

	2024 HK$'000	2023 HK$'000
Cash and balances with central bank and banks	17,012,425	13,327,885
Placements with banks		
– With original maturity within three months	71,265,666	51,006,753
– With original maturity over three months	4,609,605	1,203,161
	75,875,271	52,209,914
Less: Impairment allowances under stage 1	(37,983)	(29,168)
	92,849,713	65,508,631

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with the People's Bank of China by the Mainland branches of HK$461,572,000 (2023: HK$2,321,896,000).

Placements with banks as of 31 December 2024 and 31 December 2023 are maturing between one and twelve months.

As of 31 December 2024, the gross carrying amount, including accrued interest, of placements with banks amounted to HK$76,098,492,000 (2023: HK$52,367,045,000).

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2024			2023		
	Notional amount HK$'000	Fair value Assets HK$'000	Fair value Liabilities HK$'000	Notional amount HK$'000	Fair value Assets HK$'000	Fair value Liabilities HK$'000
Derivatives held for trading						
– Foreign currency forward contracts and swaps	413,744,727	1,757,637	1,069,191	275,605,285	787,330	667,033
– Foreign currency options	244,381,363	18,893	10,693	544,981,551	47,077	39,725
– Interest rate swaps	152,692,507	123,938	130,386	100,683,122	200,031	183,244
– Futures	1,087,562	978	9	–	–	–
Derivatives designated as hedging instruments						
– Interest rate swaps	8,917,623	231,541	21,982	12,625,914	371,016	29,903
		2,132,987	1,232,261		1,405,454	919,905

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As of 31 December 2024, all foreign currency forward contracts and swaps have settlement dates within 4 years (2023: 5 years) from the end of the reporting period.

The remaining maturity of foreign currency options have settlement dates within 2 years (2023:2 year) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 7 years (2023: within 8 years).

FAIR VALUE HEDGE OF FIXED-RATE BONDS

The Group designates certain interest rate swaps to hedge against fair value change of FVOCI and amortised cost debt securities with carrying amount of HK$6,305,282,000 (2023: HK$9,598,817,000) and HK$546,665,000 (2023: HK$936,996,000) as of 31 December 2024 respectively. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 2 months to 6 years (2023: 1 month to 7 years).

During the year ended 31 December 2024, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK$120,754,000 (2023: gains of HK$240,745,000) and losses in fair value of the interest rate swaps of HK$118,525,000 (2023: losses of HK$230,422,000) were included in the consolidated income statement.

HEDGE INEFFECTIVENESS

In hedge of interest income of fixed rate bond, ineffectiveness may arise if the timing of cash flows of hedged items and hedging instruments are different, or if the interest rate curves applied to discount the hedged items and hedging instruments are different, or if there are changes in the counterparties' credit risk on the fair values of hedging instruments or hedged items.

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19. INVESTMENTS IN SECURITIES

	Financial assets mandatorily measured at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2024				
Equity securities:				
Listed in Hong Kong	–	22,469	–	22,469
Unlisted	–	875,614	–	875,614
	–	898,083	–	898,083
Debt securities:				
Certificates of deposits	–	7,098,563	–	7,098,563
Other debt securities	1,278,428	43,961,149	1,597,175	46,836,752
	1,278,428	51,059,712	1,597,175	53,935,315
Other securities:				
Unlisted	2,762,451	–	–	2,762,451
	2,762,451	–	–	2,762,451
Total:				
Listed in Hong Kong	–	5,352,939	9,653	5,362,592
Listed overseas	1,106,080	32,531,393	1,587,251	35,224,724
Unlisted	2,934,799	14,073,463	271	17,008,533
	4,040,879	51,957,795	1,597,175	57,595,849

As of 31 December 2024, the gross carrying amount, including accrued interest, of investment in securities measured at amortised cost amounted to HK$1,604,769,000 (2023: HK$3,798,095,000).

19. INVESTMENTS IN SECURITIES *(Continued)*

	Financial assets mandatorily measured at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2023				
Equity securities:				
Listed in Hong Kong	–	28,406	–	28,406
Listed overseas	–	2,132	–	2,132
Unlisted	–	790,578	–	790,578
	–	821,116	–	821,116
Debt securities:				
Certificates of deposits	–	7,321,343	–	7,321,343
Other debt securities	2,072,530	53,985,366	3,770,348	59,828,244
	2,072,530	61,306,709	3,770,348	67,149,587
Other securities:				
Unlisted	1,321,193	–	–	1,321,193
	1,321,193	–	–	1,321,193
Total:				
Listed in Hong Kong	–	4,807,949	721,452	5,529,401
Listed overseas	2,072,530	31,440,655	2,309,254	35,822,439
Unlisted	1,321,193	25,879,221	739,642	27,940,056
	3,393,723	62,127,825	3,770,348	69,291,896

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19. INVESTMENTS IN SECURITIES *(Continued)*

INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AT FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities as follows:

	Instruments held as of 31 December 2024		Instruments disposed during the year ended 31 December 2024		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	875,614	8,172	–	–	–
– other	22,469	1,986	6,588	2,926	284
	898,083	10,158	6,588	2,926	284

	Instruments held as of 31 December 2023		Instruments disposed during the year ended 31 December 2023		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	790,578	16,733	–	–	–
– other	30,538	2,044	–	–	–
	821,116	18,777	–	–	–

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

20. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets classified as FVOCI as of 31 December 2024 and 31 December 2023 that were transferred to an entity with terms to repurchase these financial assets at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these financial assets, the full carrying amount of these financial assets continued to be recognised. The cash received on the transfer was reported as liabilities under "Deposits and balances with banks and other financial institutions" (see note 26). The transferred financial assets serve as collateral to secure these liabilities. During the covered period, the legal titles of the financial assets are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These financial assets are measured at fair value in the consolidated statement of financial position.

	2024		2023	
	Carrying amount of transferred assets measured at FVOCI HK$'000	Carrying amount of associated liabilities HK$'000	Carrying amount of transferred assets measured at FVOCI HK$'000	Carrying amount of associated liabilities HK$'000
Repurchase agreements	**3,189,045**	**3,028,730**	3,117,803	2,934,731

Other than amounts stated in above, balances with banks and other financial institutions amounted to HK$3,591,988,000 (2023: HK$2,693,646,000) are pledged by securities and trade bills of HK$3,882,702,000 (2023: HK$2,624,577,000).

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21. ADVANCES AND OTHER ACCOUNTS

	2024 HK$'000	2023 HK$'000
Advances to customers	160,308,817	159,185,531
Trade bills measured at		
– amortised cost	510,580	272,329
– FVOCI	430,993	2,707,761
	941,573	2,980,090
	161,250,390	162,165,621
Advances to other financial institutions *(Note 1)*	1,603,018	1,266,256
Interest receivable	2,330,944	1,926,831
Impairment allowances		
– Stage 1	(538,403)	(528,717)
– Stage 2	(200,033)	(238,665)
– Stage 3	(1,889,043)	(1,547,488)
	(2,627,479)	(2,314,870)
	162,556,873	163,043,838
Other accounts		
– Deposit placed as mandatory reserve fund *(Note 2)*	3,089,527	3,075,825
– Initial and variation margin *(Note 3)*	630,591	564,246
– Others *(Note 4)*	590,458	566,844
	4,310,576	4,206,915
	166,867,449	167,250,753

Note 1: Details and fair value of collateral accepted as securities are set out in Note 7 to the consolidated financial statements.

Note 2: Balance mainly represented mandatory reserve deposits placed by Mainland Branches with the People's Bank of China which is not available for the Group's daily operation.

Note 3: Balance mainly represented deposits placed in banks as initial and variation margin for certain interest margin, foreign currency forward contracts and repurchase agreements.

Note 4: As of 31 December 2024, balance included reinsurance contract assets of HK$9,652,000 (2023: HK$9,078,000).

As of 31 December 2024, the gross carrying amount, including accrued interest, of advances to customers and advances to other financial institutions amounted to HK$161,651,562,000 and HK$1,603,574,000 (2023: HK$162,698,089,000 and HK$1,266,836,000) respectively.

21. ADVANCES AND OTHER ACCOUNTS *(Continued)*

Details of the impaired loans are as follows:

	2024 HK$'000	2023 HK$'000
Gross impaired loans	5,119,072	4,667,546
Less: Impairment allowances	(1,889,043)	(1,547,488)
Net impaired loans	3,230,029	3,120,058
Gross impaired loans as a percentage of gross advances	3.14%	2.86%
Market value of collateral pledged	2,016,686	985,443

Details of the non-performing loans are as follows:

	2024 HK$'000	2023 HK$'000
Gross non-performing loans *(Note)*	4,625,841	4,567,596
Less: Impairment allowances	(1,789,072)	(1,547,488)
Net non-performing loans	2,836,769	3,020,108
Gross non-performing loans as a percentage of gross advances	2.84%	2.79%
Market value of collateral pledged	1,372,063	715,571

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's loan classification.

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22. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held by the Group	Principal activities and place of operation
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK$5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK$25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Insurance Brokers Limited	Hong Kong, limited liability company	HK$4,000,000	100%	Insurance broking in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK$85,000,000	100%	Insurance underwriting in Hong Kong
Chong Hing (Nominees) Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK$10,000,000	100%	Stockbroking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK$16,550,000	100%	Property investment in Mainland China
Hero Marker Limited	Hong Kong, limited liability company	HK$100,000	100%	Property investment in Hong Kong
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK$4,100,000	100%	Property investment in Hong Kong

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

23. INTERESTS IN ASSOCIATES

	2024 HK$'000	2023 HK$'000
Share of post-acquisition profit and other comprehensive income net of dividends received	**406,871**	372,868

The directors consider the Group has significant influence over these entities.

As of 31 December 2024 and 31 December 2023, the Group had interests in the following associates:

	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting

The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of six to one out of eight directors of these companies.

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2024 HK$'000	2023 HK$'000
Other comprehensive income	**2,234**	–
Profit (losses) after tax	**60,949**	(43,003)
Total comprehensive income	**63,183**	(43,003)

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited ("HKLI") and BC Reinsurance Limited ("BC Re"). Effective from 1 July 2024, HKLI and BC Re have to maintain a capital base of not less than the prescribed capital amount which is determined in accordance with the Hong Kong Insurance Ordinance Insurance (Valuation and Capital) Rules. These regulatory requirements may trigger restrictions on fund transfer of HKLI and BC Re.

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24. INVESTMENT PROPERTIES

	2024 HK$'000	2023 HK$'000
At 1 January	312,436	319,764
Transfer from land and buildings	134,410	–
Net losses on fair value recognised in the profit or loss	(33,148)	(5,570)
Exchange adjustments	(2,074)	(1,758)
At 31 December	411,624	312,436

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 31 December 2024 and 31 December 2023 by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value of investment properties is determined by adopting the direct comparison approach and income approach. Under direct comparison approach, the fair value is determined by reference to actual sales transactions of comparable properties with similar character and location. Under income approach, the fair value is determined by reference to the value of income, cash flow or cost savings generated by the assets.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties are classified as Level 3 under fair value hierarchy as of 31 December 2024 and 31 December 2023. There were no transfers into or out of Level 3 during the years ended 31 December 2024 and 2023.

The significant unobservable inputs and their range used for the fair value measurement of the Group's investment properties classified as Level 3 are market yield of 3.3%-4.0% (2023: 2.6%-2.7%) and property unit selling rate of HK$2,901-HK$47,290 per square feet (2023: HK$3,329-HK$49,180 per square feet). The higher the property unit selling rate and the lower the market yield, the higher the fair value.

During the year, the Group transferred lands and buildings amounting HK$134,410,000 to investment properties.

24. INVESTMENT PROPERTIES *(Continued)*

The carrying amount of investment properties of the Group comprises:

	2024 HK$'000	2023 HK$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	161,690	165,710
Held in Hong Kong on medium-term lease (10–50 years unexpired)	193,680	86,890
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	56,254	59,836
	411,624	312,436

LEASING ARRANGEMENTS

The Group leases out investment property under operating leases. Lease payments are usually increased after the end of current leases to reflect market rentals.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2024 HK$'000	2023 HK$'000
Within 1 year	6,269	5,053
After 1 year but within 2 years	5,096	2,622
After 2 years but within 5 years	2,702	2,816
Over 5 years	–	633
	14,067	11,124

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25. PROPERTY AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Right-of-use assets HK$'000	Equipment HK$'000	Total HK$'000
COST					
At 1 January 2024	345,020	133,140	1,207,519	1,001,261	2,686,940
Additions	–	–	66,439	47,146	113,585
Disposals	–	–	(64,365)	(7,706)	(72,071)
Transfer to investment properties	(24,928)	(7,499)	–	–	(32,427)
Exchange adjustments	–	(1,068)	(10,875)	(10,234)	(22,177)
At 31 December 2024	320,092	124,573	1,198,718	1,030,467	2,673,850
ACCUMULATED DEPRECIATION					
At 1 January 2024	130,162	50,254	665,637	796,093	1,642,146
Depreciation	7,832	3,412	152,881	70,687	234,812
Eliminated on disposals	–	–	(63,060)	(7,198)	(70,258)
Transfer to investment properties	(9,991)	(3,774)	–	–	(13,765)
Exchange adjustments	–	(169)	(4,916)	(7,404)	(12,489)
At 31 December 2024	128,003	49,723	750,542	852,178	1,780,446
CARRYING AMOUNTS					
At 31 December 2024	192,089	74,850	448,176	178,289	893,404
At 1 January 2024	214,858	82,886	541,882	205,168	1,044,794

25. PROPERTY AND EQUIPMENT *(Continued)*

	Leasehold land HK$'000	Buildings HK$'000	Right-of-use assets HK$'000	Equipment HK$'000	Total HK$'000
COST					
At 1 January 2023	345,020	134,076	946,008	1,003,300	2,428,404
Additions	–	–	300,682	27,143	327,825
Disposals	–	–	(30,926)	(21,150)	(52,076)
Exchange adjustments	–	(936)	(8,245)	(8,032)	(17,213)
At 31 December 2023	345,020	133,140	1,207,519	1,001,261	2,686,940
ACCUMULATED DEPRECIATION					
At 1 January 2023	122,330	46,960	530,417	746,015	1,445,722
Depreciation	7,832	3,430	166,410	74,204	251,876
Eliminated on disposals	–	–	(28,715)	(18,787)	(47,502)
Exchange adjustments	–	(136)	(2,475)	(5,339)	(7,950)
At 31 December 2023	130,162	50,254	665,637	796,093	1,642,146
CARRYING AMOUNTS					
At 31 December 2023	214,858	82,886	541,882	205,168	1,044,794
At 1 January 2023	222,690	87,116	415,591	257,285	982,682

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25. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2024 HK$'000	2023 HK$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	23,743	26,127
Held on medium-term lease (10–50 years unexpired)	167,687	188,044
Leasehold land outside Hong Kong:		
Held on medium-term lease (10–50 years unexpired)	659	687
	192,089	214,858

The carrying amounts of buildings shown above comprise:

	2024 HK$'000	2023 HK$'000
Held in Hong Kong on long-term lease (over 50 years unexpired)	3,828	4,069
Held in Hong Kong on medium-term lease (10–50 years unexpired)	47,834	53,885
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	23,188	24,932
	74,850	82,886

For both years, the Group leases various offices and branches for its operations.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Lease contracts are entered into for fixed term of 2 to 5 years (2023: 2 to 6 years), but may have extension options of 1 to 5 years (2023: 1 to 5 years) for 3 lease contracts (2023: 4). Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

26. DEPOSITS AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2024			2023		
	Measured at amortised cost HK$'000	Measured at fair value through profit or loss HK$'000	Total HK$'000	Measured at amortised cost HK$'000	Measured at fair value through profit or loss HK$'000	Total HK$'000
Deposits with banks *(note 1)*	9,793,577	1,029,876	10,823,453	10,917,599	–	10,917,599
Balances with banks and other financial institutions	3,591,988	–	3,591,988	2,693,646	–	2,693,646
Repurchase agreements *(note 2)*	3,028,730	–	3,028,730	2,934,731	–	2,934,731
	6,620,718	–	6,620,718	5,628,377	–	5,628,377
	16,414,295	1,029,876	17,444,171	16,545,976	–	16,545,976

As of 31 December 2024, the gross carrying amount, including accrued interest, of deposits with banks, balances with banks and other financial institutions and repurchase agreements amounted to HK$9,840,960,000 and HK$6,639,525,000 respectively (2023: HK$10,967,390,000 and HK$5,646,165,000 respectively).

Note 1: Included in deposits with banks are financial liabilities designated at fair value through profit or loss of HK$1,029,876,000 (2023: HK$Nil) in order to eliminate or significantly reduce an accounting mismatch. As of 31 December 2024, the difference between the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group would be contractually required to pay at maturity to the holders was not significant.

Note 2: For details of assets transferred, please refer to note 20.

27. DEPOSITS FROM CUSTOMERS

	2024 HK$'000	2023 HK$'000
Deposits from customers		
– Demand deposits and current accounts	16,241,621	15,959,805
– Saving deposits	42,987,622	46,740,490
– Time, call and notice deposits	187,914,833	176,581,112
	247,144,076	239,281,407

As of 31 December 2024, the gross carrying amount, including accrued interest, of deposits from customers amounted to HK$248,777,612,000 (2023: HK$241,279,164,000).

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28. CERTIFICATES OF DEPOSIT

	2024 HK$'000	2023 HK$'000
Certificates of deposit, measured at amortised cost	**5,094,471**	387,415

As of 31 December 2024, the gross carrying amount, including accrued interest, of certificates of deposit amounted to HK$5,102,285,000 (2023: HK$387,657,000).

29. LOAN CAPITAL

	2024 HK$'000	2023 HK$'000
Subordinated notes, at amortised cost US$224 million fixed rate subordinated note due 2032 *(Notes (a) & (d))*	**1,738,237**	1,746,559
Subordinated notes, at amortised cost RMB1.5 billion fixed rate subordinated note due 2033 *(Notes (b) & (d))*	**1,581,369**	1,638,194
Subordinated notes, at amortised cost RMB2.5 billion fixed rate subordinated note due 2034 *(Notes (c) & (d))*	**2,638,840**	–
	5,958,446	3,384,753

As of 31 December 2024, the gross carrying amount, including accrued interest, of loan capital amounted to HK$5,994,964,000 (2023: HK$3,421,655,000).

Notes:

(a) This represented the subordinated notes qualifying as Tier 2 capital under Basel III accord with face value of US$224,000,000 issued on 27 July 2022 (the "Existing Notes"). The Existing Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 4.900% per annum, payable semi-annually for the first five years; the interest rate will be reset on 27 July 2027.

(b) This represented the subordinated notes qualifying as Tier 2 capital under Basel III accord with face value of RMB1,500,000,000 issued on 28 September 2023 (the "New Notes"). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 4.20% per annum, payable annually.

(c) This represented the subordinated notes qualifying as Tier 2 capital under Basel III accord with face value of RMB2,500,000,000 issued on 11 June 2024. The notes are 10-year non-call 5-year fixed rate, with a fixed coupon rate of 2.93% per annum, payable annually.

(d) The subordinated notes issued are not secured by any collateral.

29. LOAN CAPITAL *(Continued)*

ANALYSIS OF CHANGES IN FINANCING CASH FLOW OF LOAN CAPITAL DURING THE YEAR

	2024 HK$'000	2023 HK$'000
At 1 January	3,384,753	1,746,101
Changes from financing cash flows:		
Net proceeds from issue of loan capital	2,691,500	1,606,500
Interest paid on loan capital	(157,532)	(85,380)
	5,918,721	3,267,221
Exchange adjustments	(117,807)	12,777
Other changes		
Interest expense	199,820	104,755
Other non-cash movements	(42,288)	–
Total other changes	157,532	104,755
At 31 December	5,958,446	3,384,753

30. SHARE CAPITAL

	2024		2023	
	Number of shares	Share capital HK$'000	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	972,862,225	20,030,884	972,862,222	17,030,884
Share issued as a result of capital injection *(Note (a))*	1	1,000,000	3	3,000,000
At 31 December	972,862,226	21,030,884	972,862,225	20,030,884

Note:

(a) The Bank issued 1 ordinary share on 26 June 2024 to the immediate holding company of the Bank at the subscription price of HK$1,000,000,000, as a result of capital injection. Such share is fully paid.

The Bank issued 1 ordinary share each on 28 June 2023, 27 September 2023 and 15 December 2023 to the immediate holding company of the Bank at the subscription price of HK$1,000,000,000 each, as a result of capital injection. Such shares are fully paid.

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31. ADDITIONAL EQUITY INSTRUMENTS

	2024 HK$'000	2023 HK$'000
Additional Tier 1 Capital Securities		
US$400 million undated non-cumulative subordinated capital securities *(Note (a))*	–	3,111,315
US$300 million undated non-cumulative subordinated capital securities *(Note (b))*	2,316,681	2,316,681
	2,316,681	5,427,996

Notes:

(a) On 15 July 2019, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$400 million (equivalent to HK$3,115,315,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.700% coupon until the first call date on 15 July 2024. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.858% per annum.

The coupon is payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank redeemed the Additional Tier 1 Capital Securities in full on 12 July 2024. Upon completion of the redemption, the Additional Tier 1 Capital Securities were cancelled.

(b) On 3 August 2020, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$300 million (equivalent to HK$2,316,681,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.500% coupon until the first call date on 3 August 2025. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.237% per annum.

The coupon is payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

32. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2024 HK$'000	2023 HK$'000
Deferred tax assets	5,028	1,714
Deferred tax liabilities	(96,886)	(76,279)
	(91,858)	(74,565)

32. DEFERRED TAXATION *(Continued)*

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation HK$'000	Impairment allowances HK$'000	Investment properties HK$'000	Revaluation of FVOCI securities HK$'000	Remeasurement of retirement benefits HK$'000	Total HK$'000
At 1 January 2024	(125,295)	112,200	(24,481)	(30,499)	(6,490)	(74,565)
Credit (charge) to income statement for the year *(Note 15)*	45,838	273	141	–	–	46,252
Charge to other comprehensive income for the year	–	(6,343)	–	(58,057)	–	(64,400)
Exchange adjustments	–	–	855	–	–	855
At 31 December 2024	(79,457)	106,130	(23,485)	(88,556)	(6,490)	(91,858)
At 1 January 2023	(161,668)	104,136	(25,201)	26,583	(6,110)	(62,260)
Credit (charge) to income statement for the year *(Note 15)*	36,373	23,304	(1,558)	–	–	58,119
Charge to other comprehensive income for the year	–	(15,240)	–	(57,082)	(380)	(72,702)
Exchange adjustments	–	–	2,278	–	–	2,278
At 31 December 2023	(125,295)	112,200	(24,481)	(30,499)	(6,490)	(74,565)

As at 31 December 2024, the Group has unused tax losses arising in Hong Kong of approximately HK$6,873,000 (2023: HK$6,215,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unused tax losses arising in Macau of HK$44,995,000 (2023: HK$70,784,000), that will expire in one to three years for offsetting against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

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33. INTANGIBLE ASSETS

	Club Membership HK$'000	Goodwill HK$'000	Software HK$'000	Internally developed software HK$'000	Total HK$'000
COST					
At 1 January 2024	14,090	110,606	17,572	862,786	1,005,054
Addition	–	–	18	–	18
Exchange adjustment	–	–	(618)	(2,484)	(3,102)
At 31 December 2024	14,090	110,606	16,972	860,302	1,001,970
ACCUMULATED AMORTISATION					
At 1 January 2024	–	–	5,897	170,509	176,406
Amortisation	–	–	1,470	67,039	68,509
Exchange adjustment	–	–	(465)	(815)	(1,280)
At 31 December 2024	–	–	6,902	236,733	243,635
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2024	–	71,000	–	–	71,000
CARRYING AMOUNTS					
At 31 December 2024	14,090	39,606	10,070	623,569	687,335
At 1 January 2024	14,090	39,606	11,675	692,277	757,648
COST					
At 1 January 2023	14,090	110,606	14,825	865,157	1,004,678
Addition	–	–	3,189	–	3,189
Exchange adjustment	–	–	(442)	(2,371)	(2,813)
At 31 December 2023	14,090	110,606	17,572	862,786	1,005,054
ACCUMULATED AMORTISATION					
At 1 January 2023	–	–	4,912	114,503	119,415
Amortisation	–	–	1,132	56,543	57,675
Exchange adjustment	–	–	(147)	(537)	(684)
At 31 December 2023	–	–	5,897	170,509	176,406
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2023	–	71,000	–	–	71,000
CARRYING AMOUNTS					
At 31 December 2023	14,090	39,606	11,675	692,277	757,648
At 1 January 2023	14,090	39,606	9,913	750,654	814,263

33. INTANGIBLE ASSETS *(Continued)*

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited ("CHI"). The amount of goodwill arising as a result of acquisition was HK$110,606,000.

For the year ended 31 December 2024, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and value in use of the acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. Value in use is derived by discounting the expected future cash flows at 12% discount rate (2023: 12%). These calculations use cash flow projections based on financial budgets approved by management covering a three-year period with assumptions on an overall growth in gross written premium of 4% per annum during the fourth and fifth years (2023: 2% per annum during the first 5 years) and terminal growth rate on overall net profit of 2% (2023: 2%).

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2024 (2023: Nil), as the value in use exceeds the carrying amount.

The club membership represents the eligibility rights to certain clubs and have no foreseeable limit to the period over which the Group can use. As a result, the club membership is considered by the management of the Group as having an indefinite useful life. The club membership will not be amortised until its useful life are determined to be finite. Instead, they will be tested for impairment annually. No impairment is considered necessary as of 31 December 2024 and 31 December 2023.

34. OTHER ACCOUNTS AND ACCRUALS

	2024 HK$'000	2023 HK$'000
Accrued interest	2,660,522	2,667,437
Lease liabilities *(Note 1)*	461,592	558,828
Others *(Note 2)*	2,498,191	1,928,426
	5,620,305	5,154,691

Note 1:

TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated statement of cash flows for leases comprises the following which could be presented in operating and financing cash flows:

	2024 HK$'000	2023 HK$'000
Payment of lease liabilities:		
Principal	159,179	158,503
Interest	23,360	22,815
Expenses relating to short-term leases	49	49
Expenses relating to leases of low-value assets	71	71
	182,659	181,438

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34. OTHER ACCOUNTS AND ACCRUALS *(Continued)*

Note 2:

Other accounts and accruals include insurance contract liabilities with details as follows:

	2024 HK$'000	2023 HK$'000
At 1 January	82,594	101,203
Benefit paid	(13,335)	(17,753)
Claims incurred and movement in liabilities	7,750	(1,260)
At 31 December	77,009	82,190

35. CONTINGENT LIABILITIES AND COMMITMENTS

	2024 HK$'000	2023 HK$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	3,034,108	1,385,947
Transaction-related contingencies	948,905	883,849
Trade-related contingencies	790,795	1,445,144
Forward asset purchases	10,864	12,572
Forward forward deposits placed	–	780,870
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	60,666,430	61,089,018
With an original maturity of one year and under	611,200	506,972
With an original maturity of over one year	7,973,033	10,034,026
Lease commitments	176	164
	74,035,511	76,138,562

The credit risk-weighted amount of contingent liabilities and commitments is HK$5,850,397,000 (2023: HK$6,558,978,000).

The credit risk-weighted amount is calculated based on "standardised approach". The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2023: 0% to 150%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

35. CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2024 HK$'000	2023 HK$'000
Within one year	135	88
In the second to fifth years, inclusive	41	76
	176	164

Operating lease payments represent short-term and low-value lease payable by the Group for certain of its office properties.

Capital commitments outstanding at the end of the reporting period are as follows:

	2024 HK$'000	2023 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	10,864	12,572

36. RETIREMENT BENEFITS SCHEME

At the beginning of the reporting period, the Group had two retirement schemes in operation including a defined benefit scheme (the "ORSO Scheme"), which was registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme in defined contribution segment prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the "participating members"). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

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36. RETIREMENT BENEFITS SCHEME *(Continued)*

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 60. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The trustees of the ORSO Scheme have resolved to terminate the ORSO Scheme on 20 March 2019. The ORSO Scheme has ceased operations and on the same date transferred all assets to Chong Hing Bank Limited – New Staff Retirement Benefits Scheme (the "New Scheme") on 30 August 2019 with a new trustee appointed. The New Scheme mirrors the benefit provisions of the ORSO Scheme.

The most recent actuarial valuation of the defined benefit segment of the ORSO Scheme was carried out as of 31 December 2023 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method. At the date of the latest formal independent actuarial valuation made on 31 December 2023, the net retirement asset of the defined benefit segment was HK$42,220,000 and included under advances and other accounts in the consolidated statement of financial position.

	2023 **HK$'000**
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(562)
Interest income on plan assets	2,060
Net interest income	1,498
Amount recognised in other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	2,307

36. RETIREMENT BENEFITS SCHEME *(Continued)*

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2023 HK$'000
Present value of defined benefit obligation	(9,337)
Fair value of plan assets	51,557
	42,220

Changes in the present value of the defined benefit obligation are as follow:

	2023 HK$'000
Opening defined benefit obligation	15,036
Interest cost	562
Actuarial gain	(5,139)
Benefits paid	(1,122)
Closing defined benefit obligation	9,337

Changes in fair value of plan assets are as follow:

	2023 HK$'000
Opening fair value of plan assets	53,451
Interest income	2,060
Return on plan assets	(2,832)
Benefits paid	(1,122)
Closing fair value of plan assets	51,557

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36. RETIREMENT BENEFITS SCHEME *(Continued)*

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2023 %
Cash	5
Guaranteed fund	95

The fair value of the plan assets as of 31 December 2023 for each category, are as follow:

	2023 HK$'000
Cash	3,140
Guaranteed fund	59,657
	62,797

The ORSO Scheme's defined benefit segment exposes the Group to the interest rate risk, longevity risk and price risk as of 31 December 2023.

INTEREST RATE RISK

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

PRICE RISK

As stated above, 95% of the assets were invested into guaranteed fund as of 31 December 2023. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

36. RETIREMENT BENEFITS SCHEME *(Continued)*

PRICE RISK *(Continued)*

The significant assumptions used in determining the defined benefit obligations are shown below:

	2023 %
Discount rate (per annum)	0.8
Expected rate of pension increase (per annum)	0.0

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2023 Change in assumption +0.25% HK$'000	 –0.25% HK$'000
Discount rate	175	182

	Age +1 year HK$'000	Age –1 year HK$'000
Pensioner mortality	(419)	419

As of 31 December 2023, the weighted average duration of the defined benefit obligation is approximately 7.7 years.

The costs for providing benefits to the members of the ORSO Scheme's defined benefit segment are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2023, the Group is not required to contribute to the ORSO Scheme's defined benefit segment with respect to the members of the ORSO Scheme's defined benefit segment according to the results of the last statutory funding valuation of the ORSO Scheme's defined benefit segment as of 31 December 2023. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO Scheme's defined benefit segment in every three years become available.

The Group is obligated to make long service payment to qualifying employees in Hong Kong with a minimum of five years' employment period upon retirement or termination of employment under certain circumstances, in accordance with the Hong Kong Employment Ordinance (the "Employment Ordinance"). Long service payment is calculated based on the last monthly salary of the employee and the number of employees' long service payment provisions under the Employment Ordinance permitting employers to offset employees' long service payment against the accrued benefits attributable to employer's contributions to the MPF Scheme. In 2022, the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022 (the "Amendment Bill") was enacted, such that the Group can no longer use accrued benefits arising from MPF mandatory employer contributions to offset employees' long service payment accrued as from the transition date (i.e., 1 May 2025). The enactment of the Amendment Bill is treated as a plan amendment. Except for the statutory right to offset as described above, the long service payment benefits are unfunded.

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37. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2024 HK$'000	2023 HK$'000	2024 HK$'000	2023 HK$'000
Ultimate holding company	14	14	81,300	15,867
Intermediate holding company	32,277	7,919	59,281	25,862
Fellow subsidiaries	202,744	39,092	141,648	116,443
Associates	27,954	29,505	26,801	29,231
Key management personnel *(Note 1)*	1,229	428	3,722	3,171

During the year 2024, the Group had net trading income with intermediate holding company and fellow subsidiary of losses of HK$26,008,000 (2023: gains of HK$3,725,000).

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2024 HK$'000	2023 HK$'000	2024 HK$'000	2023 HK$'000
Ultimate holding company	–	–	1,592,881	–
Intermediate holding company	410,000	150,000	3,127,015	156,009
Fellow subsidiaries	6,960,562	2,717,379	6,234,838	8,678,849
Associates	–	–	145,989	69,796
Key management personnel *(Note 1)*	354,211	26,587	317,968	82,303

Note 1: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

37. RELATED PARTY TRANSACTIONS *(Continued)*

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As of 31 December 2024, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK$1,098,125,000 (2023: HK$241,874,000).

Amounts due from related parties are included under advances and other accounts in the consolidated statement of financial position.

Amounts due to related parties are included under deposits from customers in the consolidated statement of financial position.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of the key management during the year was as follows:

	2024 HK$'000	2023 HK$'000
Short-term benefits	223,012	223,598
Post employment benefits	17,944	17,118
	240,956	240,716

The remuneration of directors and key management is reviewed by the Nomination and Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2024, the Group accrued a bonus for the Group's senior management and employees. The bonus pool was approved by the Nomination and Remuneration Committee on 10 March 2025. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

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38. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital are:

– comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and

– support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the HKMA on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its 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.

Throughout the years ended 31 December 2024 and 2023, the Bank has complied with the capital requirements imported by the HKMA. Additional information is disclosed in the Bank's Regulatory Disclosure.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2024 HK$'000	2023 HK$'000
Assets		
Cash and balances and placements with banks	92,846,165	65,501,080
Derivative financial instruments	2,132,987	1,405,454
Investments in securities	57,564,003	69,245,490
Advances and other accounts	166,592,237	167,024,988
Tax recoverables	13,571	93,428
Investments in subsidiaries	238,326	254,984
Amounts due from subsidiaries	176,823	180,436
Interests in associates	20,000	20,000
Investment properties	355,370	252,600
Property and equipment	737,796	883,012
Deferred tax assets	5,028	1,714
Intangible assets	647,729	718,042
Total assets	321,330,035	305,581,228
Liabilities		
Deposits and balances with banks and other financial institutions	17,444,171	16,545,976
Deposits from customers	247,260,317	239,392,549
Amounts due to subsidiaries	1,021,043	933,769
Derivative financial instruments	1,232,261	919,905
Other accounts and accruals	5,350,479	4,898,929
Current tax liabilities	77,161	19,498
Certificates of deposit	5,094,471	387,415
Loan capital	5,958,446	3,384,753
Deferred tax liabilities	76,752	53,793
Total liabilities	283,515,101	266,536,587
Equity attributable to owners of the Bank		
Share capital	21,030,884	20,030,884
Additional equity instruments	2,316,681	5,427,996
Reserves *(Note (a))*	14,467,369	13,585,761
Total equity	37,814,934	39,044,641
Total liabilities and equity	321,330,035	305,581,228

Approved and authorised for issue by the Board of Directors on 18 March 2025 and signed on its behalf by:

Li Feng	**Zong Jianxin**
Chairman	*Executive Director, Deputy Chairman and Chief Executive*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a):

	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK							
At 1 January 2024	843,602	197,136	1,378,500	(482,826)	538,000	11,111,349	13,585,761
Profit for the year	–	–	–	–	–	1,441,155	1,441,155
Exchange differences arising on translation	–	–	–	(278,871)	–	–	(278,871)
Surplus on transfer of land and buildings to investments properties	–	115,748	–	–	–	–	115,748
Net gains on investments in equity instruments measured at FVOCI	84,101	–	–	–	–	–	84,101
Net gains on investments in debt instruments measured at FVOCI	232,113	–	–	–	–	–	232,113
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(17,045)	–	–	–	–	–	(17,045)
Income tax effect relating to disposal of financial assets measured at FVOCI	2,561	–	–	–	–	–	2,561
Income tax effect relating to fair value change of financial assets measured at FVOCI	(68,965)	–	–	–	–	–	(68,965)
Other comprehensive income (net of tax)	232,765	115,748	–	(278,871)	–	–	69,642
Total comprehensive income for the year	232,765	115,748	–	(278,871)	–	1,441,155	1,510,797
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	(2,876)	–	–	–	–	2,876	–
Redemption of additional equity instruments	–	–	–	–	–	(12,006)	(12,006)
Distribution payment for additional equity instruments	–	–	–	–	–	(307,183)	(307,183)
Interim dividend paid	–	–	–	–	–	(160,000)	(160,000)
Final dividend paid	–	–	–	–	–	(150,000)	(150,000)
Earmark of retained profits as regulatory reserve	–	–	–	–	17,000	(17,000)	–
At 31 December 2024	1,073,491	312,884	1,378,500	(761,697)	555,000	11,909,191	14,467,369

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): (Continued)

	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK							
At 1 January 2023	158,139	197,136	1,378,500	(265,772)	614,000	10,221,900	12,303,903
Profit for the year	–	–	–	–	–	1,428,675	1,428,675
Exchange differences arising on translation	–	–	–	(217,054)	–	–	(217,054)
Remeasurement of retirement benefit	–	–	–	–	–	2,307	2,307
Income tax effect relating to retirement benefit	–	–	–	–	–	(380)	(380)
Net gains on investments in equity instruments measured at FVOCI	615,884	–	–	–	–	–	615,884
Net gains on investments in debt instruments measured at FVOCI	148,083	–	–	–	–	–	148,083
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(30,856)	–	–	–	–	–	(30,856)
Income tax effect relating to disposal of financial assets measured at FVOCI	5,091	–	–	–	–	–	5,091
Income tax effect relating to fair value change of financial assets measured at FVOCI	(52,739)	–	–	–	–	–	(52,739)
Other comprehensive income (net of tax)	685,463	–	–	(217,054)	–	1,927	470,336
Total comprehensive income for the year	685,463	–	–	(217,054)	–	1,430,602	1,899,011
Distribution payment for additional equity instruments	–	–	–	–	–	(307,153)	(307,153)
Interim dividend paid	–	–	–	–	–	(180,000)	(180,000)
Final dividend paid	–	–	–	–	–	(130,000)	(130,000)
Earmark of retained profits as regulatory reserve	–	–	–	–	(76,000)	76,000	–
At 31 December 2023	843,602	197,136	1,378,500	(482,826)	538,000	11,111,349	13,585,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): (Continued)

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of FVOCI investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI debt securities are disposed of.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner-occupied properties to investment properties.

Exchange differences relating to the translation of the net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

40. BENEFITS AND INTERESTS OF DIRECTORS

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G))

*(A) **Directors' emoluments***

The emoluments of the Directors of the Bank were as follows:

	2024 HK$'000	2023 HK$'000
Directors' fee	3,319	4,748
Salaries, bonuses, allowances and benefits in kind	22,200	18,406
Retirement benefits scheme contributions	1,642	1,453
	27,161	24,607

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2024

40. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G)) *(Continued)*

(B) ***Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors***

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding		Maximum aggregate balance of relevant loans
	at January 1 HK$'000	at December 31 HK$'000	during the year HK$'000
2024	**2,287**	**11**	**3,152**
2023	50	2,287	3,829

As of 31 December 2024, the loans bear interest at rates ranging from 0% to prime rate plus 10% (2023: 0% to prime rate plus 10%). As of 31 December 2024, loans to officers amounted to HK$0 were unsecured (2023: loans to officers amounted to HK$1,900,000 were unsecured).

41. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As of 31 December 2024 and 31 December 2023, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*), which is incorporated in the People's Republic of China.

* *for identification purpose only*

42. COMPARATIVES

Certain comparative figures have been re-presented to conform with the presentation and disclosures in current year.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

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

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined Terms of Reference. The Board reviews and updates the committees' Terms of Reference on a regular basis.

These specialised committees are:

(i) Audit Committee
(ii) Connected Party Transactions Committee
(iii) Executive Committee
(iv) Digitalization Strategy Committee
(v) Nomination and Remuneration Committee
(vi) Risk Committee
(vii) Strategic and Sustainable Development Committee

Major duties under the Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

(VIII) ALCO

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets liabilities and capital of the Group from the perspective of containing the pertinent capital funding and liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's consolidated statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

(IX) RMC

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

2. MANAGEMENT OF RISKS

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the Asset and Liability Management Committee (the "ALCO"). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the credit, operational, liquidity, foreign exchange, interest rate and other market risks, and the compliance with the Bank's policies that are monitored by the Finance & Capital Management Division, the Treasury and Markets, the Credit Risk Management Division, the Legal and Compliance Division, the Operational & IT Risk Management Department, the Financial Crime Compliance Department and the Market Risk Management Department, with the assistance of various qualitative and quantitative analyses, and supervised by the ALCO and the Risk Management Committee (the "RMC"). The Board level Risk Committee ("RC") exercises further oversight of the Bank's risk management.

Complementing with the ALCO in its management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

(I) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures. Identification, assessment, mitigation, monitoring and reporting of operational risk are to be done for the Bank, through its operational risk event handling and reporting mechanism.

Executive Directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that the Bank's key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(II) REPUTATION RISK

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation events that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff, and proper and adequate communications and public relations efforts are required to foster the reputation of the Group. A reputation risk management policy guided by the Board has been established to manage including, without limitation, media exposure, handling of customers' and other stakeholders' complaints and suggestions, and to ensure that the Group's business activities, and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

2. MANAGEMENT OF RISKS (CONTINUED)

(III) CLIMATE-RELATED RISKS

Climate risk has gradually become a significant factor impacting the stability of the global financial system and has profoundly influenced the development landscape of the banking sector. With the increasing frequency of extreme weather events caused by climate change, the banking industry is facing challenges such as deteriorating asset quality and heightened credit risks. On one hand, climate risk exacerbates loan and investment risks for banks in areas like environmental protection and energy efficiency, potentially leading to defaults on related loans and investments. On the other hand, climate risk also impacts banks' capital adequacy ratios and liquidity positions, thereby affecting the operational stability of the banking industry.

To build climate resilience and mitigate the potential adverse impacts of climate change, we have established a robust and comprehensive climate risk governance framework supported by strong accountability mechanisms. The Board of Directors oversees the overall management of climate-related risks within the Bank, while the Executive Committee and Risk Committee work in conjunction with the operational levels to ensure effective management of climate-relate risks.

The Bank has developed a comprehensive sustainability strategy, detailed in our Sustainable Strategic Statement, which outlines commitments and objectives spanning multiple timelines. This strategy incorporates climate-related risk considerations into both operational and strategic frameworks, with the dual goals of reducing the Bank's environmental footprint and supporting our clients in their transition to a low-carbon economy. In light of escalating climate challenges, the Bank regularly reviews and refines its relevant policies to ensure alignment with the latest regulatory developments, industry standards, and market trends.

Chong Hing Bank has strengthened its risk management framework to effectively identify, assess, and mitigate environmental and climate-related risks, acknowledging the critical interplay between these risks and financial stability. The Bank has established policies such as the Sustainable Lending Policy and the Sustainable Investment Policy to proactively manage climate-related risks within the investment portfolio. Committed to the HKMA regulations on green and sustainable finance, we have participated in the 2023-2024 Climate Risk Stress Test ("CRST"), guided by the Guidelines for Banking Sector Climate Risk Stress Test and the HKMA Supervisory Policy Manual GS-1: Climate Risk Management.

The Bank has established targets for energy conservation and emissions reduction, actively exploring innovative operational and business metrics to enhance our climate-related risk management strategy. In alignment with the Task Force on Climate-Related Financial Disclosures ("TCFD") framework, we have disclosed information across the four key pillars of governance, strategy, risk management, and metrics and targets. We continually work to strengthen the quality of our climate-related risk management disclosures, ensuring greater comprehensiveness and transparency in our reporting to build stakeholder confidence.

For more information on the Bank's climate-related risks management, please refer to our 2024 ESG Report (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/esg-reports/index.shtml).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2024 %	2023 %
Total capital ratio	20.40	19.64
Tier 1 capital ratio	16.90	17.38
Common Equity Tier 1 ("CET 1") capital ratio	15.82	14.87

	31 December 2024 %	31 December 2023 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.500	2.500
Countercyclical capital buffer ratio	0.306	0.610
	2.806	3.110

	2024 %	2023 %
Leverage ratio	10.86	11.70

	2024 %	2023 %
Average liquidity maintenance ratio for the year	66.52	59.64

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS (CONTINUED)

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio ("LMR") is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

4. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with the Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/regulatory-disclosures/index.shtml) in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

5. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

6. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances (including advances booked in branches outside Hong Kong and subsidiaries), other than advances to banks, are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the years ended 31 December 2024 and 2023 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2024		
	Advances overdue for over three months as of 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	3,482,419	1,168,133	1,986,056

	2023		
	Advances overdue for over three months as of 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	1,808,847	1,141,219	2,337,892

7. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2024				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	96,870,086	3,219,802	3,379,434	1,335,562	307,270
Mainland China	58,691,070	1,664,034	1,739,638	553,481	420,892
Macau	4,022,982	–	–	–	5,498
Others	1,666,252	–	–	–	7,332
	161,250,390	4,883,836	5,119,072	1,889,043	740,992

	2023				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	93,608,244	2,649,729	4,664,887	1,398,934	396,080
Mainland China	53,695,416	–	–	41,185	383,723
Macau	4,514,234	–	2,659	107,369	5,047
Others	10,347,727	–	–	–	–
	162,165,621	2,649,729	4,667,546	1,547,488	784,850

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

8. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 31 December 2024				
			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
Offshore centres	8,954,164	2,110	14,354,169	19,037,095	42,347,538
of which					
– Hong Kong	4,596,841	1,927	6,985,177	13,549,451	25,133,396
Developing Asia-Pacific	38,767,125	481,344	684,013	12,496,734	52,429,216
of which					
– Mainland China	8,145,225	481,272	654,597	12,121,956	21,403,050
– Taiwan	23,839,931	72	–	2,016	23,842,019
Developed countries	27,331,506	1,757,946	1,501,270	10,422	30,601,144

	At 31 December 2023				
			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
Offshore centres	9,769,741	6,509	5,947,430	24,711,922	40,435,602
of which					
– Hong Kong	5,854,690	6,096	4,902,476	12,328,961	23,092,223
Developing Asia-Pacific	30,685,710	259,935	4,606,741	11,589,731	47,142,117
of which					
– Mainland China	17,491,474	259,790	4,606,741	11,587,456	33,945,461
Developed countries	16,518,785	1,984,117	953,538	969,015	20,425,455

9. CURRENCY RISK

The Group's foreign currency exposures have been analysed from the perspective of non-structural position and structural position. Details are set out in note 7 to the consolidated financial statements.

10. OVERDUE AND RESCHEDULED ASSETS

	2024		2023	
	Gross amount of advances HK$'000	Percentage to total advances %	Gross amount of advances HK$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	1,284,215	0.8	596,547	0.4
– 1 year or less but over 6 months	1,452,340	0.9	1,071,341	0.7
– Over 1 year	2,147,281	1.3	981,841	0.6
Advances overdue for over 3 months	4,883,836	3.0	2,649,729	1.7
Rescheduled advances, net of amounts included in "Advances overdue for over 3 months"	75,665	0.0	158,664	0.1
Impairment allowances under stage 3 made in respect of overdue loans and advances	1,846,395		520,342	
Covered portion of overdue loans and advances	1,638,564		762,595	
Uncovered portion of overdue loans and advances	3,245,272		1,887,134	
	4,883,836		2,649,729	
Market value of collateral held against covered portion of overdue loans and advances	1,990,173		963,490	

There were no advances to banks and other assets which were overdue for over three months as of 31 December 2024 and 31 December 2023, nor were there any rescheduled advances to banks and other financial institutions.

There are no overdue debt securities and trade bills as of 31 December 2024 and 31 December 2023.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

11. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorised by types of counterparties:

	31 December 2024		
	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	40,818,609	809,380	41,627,989
2 Local government, local government-owned entities and their subsidiaries and JVs	20,343,150	1,057,330	21,400,480
3 Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	35,719,326	2,320,161	38,039,487
4 Other entities of central government not reported in item 1 above	3,999,374	514,485	4,513,859
5 Other entities of local government not reported in item 2 above	671,883	–	671,883
6 Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	13,268,480	755,116	14,023,596
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,109,869	702,330	1,812,199
Total	115,930,691	6,158,802	122,089,493
Total assets after provision *(Note)*	319,890,714		
On-balance sheet exposures as percentage of total assets *(Note)*	36.24%		

11. MAINLAND ACTIVITIES EXPOSURES (CONTINUED)

	31 December 2023		
	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	45,049,555	1,073,654	46,123,209
2 Local government, local government-owned entities and their subsidiaries and JVs	18,579,763	821,308	19,401,071
3 Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	40,572,211	2,539,324	43,111,535
4 Other entities of central government not reported in item 1 above	5,305,148	17,527	5,322,675
5 Other entities of local government not reported in item 2 above	681,318	–	681,318
6 Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,001,191	553,225	12,554,416
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,306,585	118,618	3,425,203
Total	125,495,771	5,123,656	130,619,427
Total assets after provision *(Note)*	284,978,932		
On-balance sheet exposures as percentage of total assets *(Note)*	44.04%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2024

12. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

		Total assets		Total equity	
Name of company	Principal activities	2024 HK$'000	2023 HK$'000	2024 HK$'000	2023 HK$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	1,070,794	910,852	815,180	755,475
Chong Hing Commodities and Futures Limited	Commodities and futures broking	68,329	67,234	67,227	65,744
Chong Hing Insurance Company Limited	Insurance underwriting	468,082	449,163	377,885	354,169
Chong Hing Insurance Brokers Limited	Insurance broking	17,931	5,453	17,085	4,007

INDEPENDENT AUDITOR'S REPORT

To the member of Chong Hing Bank Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 70 to 227, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
Refer to material accounting policies in note 4, and disclosures on credit risk in note 7, note 14 and note 21 to the consolidated financial statements. As at 31 December 2023, gross advances to customers amounted to HK$163 billion and the expected credit loss ("ECL") allowances for advances to customers amounted to HK$2 billion. The assessment of credit risk and the measurement of ECLs are required to be based on unbiased and probability-weighted possible outcomes, and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group has adopted a forward-looking expected loss impairment model to recognise ECLs in respect of advances to customers. Significant management judgement and estimates are involved in the calculation of ECLs, including: - segmentation of financial assets according to credit risk characteristics - criteria to determine whether a significant increase in credit risk has occurred - determination of the ECL stage, estimation of probability of default, loss given default, exposure at default and discount rates - selection of forward-looking macroeconomic scenarios and their probability weightings For individual impairment allowances, management judgement is required to determine the probability of multiple exit or work out scenarios and estimate the impact that the uncertainties observed in current economic environment, including the risk associated with the Mainland China real estate sector, may have on these exit strategies, the time to collect, and collateral valuation.	We obtained an understanding of the Group's credit management policies and procedures, including measurement and recognition of ECLs. We read the minutes of the Group's Risk Committee, Risk Management Committee, Expected Credit Loss Committee, and Model Governance Committee meetings, to understand ECL model governance and monitoring and the approval of the internal credit risk ratings and assumptions used in the ECL calculation. We performed walkthroughs of credit management processes and evaluated the Group's impairment methodology, including management judgement in respect of the segmentation of portfolio, the criteria on significant credit deterioration and the measurement approach of expected credit losses. We assessed the design and tested the operating effectiveness of the key controls over the systems and processes of credit assessment, loan classification, stage classification and calculation of ECL allowances. Our testing of the loan impairment processes' controls included, amongst others, an evaluation of the governance in respect of the selection and probability weightings of economic scenarios and the controls over data input. For the ECL allowances as at 31 December 2023, we performed testing on the completeness and accuracy of the data used in the ECL calculation by comparing the individual loan data to the relevant data source on a sample basis; evaluating the calculation logic and data processing; and recomputing management's calculation of the ECL allowances. We engaged our internal specialists in evaluating the impairment methodology and model enhancements. We assessed the appropriateness of the ECL model used by management in determining impairment allowances, including changes made to forward-looking macroeconomic scenarios, and evaluated the key parameters and assumptions adopted in the model. The key parameters and assumptions included ECL stage, probability of default, loss given default, exposure at default, and probability weighted economic scenarios.

Key audit matter	How our audit addressed the key audit matter
Allowances for Expected Credit Losses on Advances to Customers	
In view of the significance of ECL allowances and the management judgement and estimates involved, the ECL allowances for advances to customers are considered a key audit matter.	In addition, for the corporate lending portfolio, we adopted a risk-based sampling approach to perform loan review procedures, with focus on high-risk industries including the Mainland China real estate sector, in order to assess the appropriateness of management's credit risk rating and ECL staging by reviewing the borrowers' financial performance, valuation of collateral and other available information. As part of our loan review procedures, we selected samples of credit-impaired loans and advances and assessed their stage 3 ECL allowances by evaluating the timing and means of realisation of collateral, the forecast of recoverable cash flows, the viability of recovery plans and other credit enhancements. We also checked and evaluated the financial statement disclosures on credit risk relating to advances to customers.
Valuation of Level 3 financial assets	
Refer to material accounting policies in note 4, and disclosures on fair values and the valuation hierarchy of financial instruments in note 7 and note 19 to the consolidated financial statements. As at 31 December 2023, the Group's financial assets and liabilities measured at fair value amounted to HK$69,635 million and HK$945 million, respectively. In connection with this, HK$791 million of the Group's financial assets measured at fair value were classified as Level 3 under the fair value hierarchy. To estimate the fair value of these Level 3 financial assets, management is required to exercise significant judgement in respect of the selection of appropriate valuation techniques, and the development of assumptions and significant unobservable inputs into the valuation models. Valuation results can vary significantly under different valuation techniques or assumptions. In view of the complexity and significance of management judgements and assumptions required, valuation of Level 3 financial assets is considered as a key audit matter.	We obtained an understanding of the Group's valuation policies and procedures for Level 3 financial assets. In conjunction with our internal specialists, we performed, amongst others, the following procedures for the Level 3 financial assets: • Critically evaluated the appropriateness of valuation techniques and assumptions through comparison with the valuation techniques that are commonly used in the market. • Independently revalued the financial assets and compared management's valuation outcome to our independent testing. We obtained an understanding and evaluated any material differences in valuation outcomes. • Assessed the valuation inputs used and agreed to third-party data sources where available. We have checked and evaluated the financial statement disclosures relating to fair value of Level 3 financial assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 of the Bank 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 of the Bank either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee 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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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 Tso Pui Sze.

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2024

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FINANCIAL STATEMENTS – CONTENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000 (Restated)
Interest income		**12,575,378**	7,404,760
Interest expense		**(7,596,070)**	(3,420,565)
Net interest income	*9*	**4,979,308**	3,984,195
Fee and commission income		**387,323**	559,929
Fee and commission expenses		**(97,447)**	(81,964)
Net fee and commission income	*10*	**289,876**	477,965
Net income from trading and investments	*11*	**552,226**	466,438
Other operating income	*12*	**181,466**	175,073
Operating expenses	*13*	**(1,930,031)**	(1,966,265)
Operating profit before impairment allowances		**4,072,845**	3,137,406
Net impairment losses on financial assets	*14*	**(2,454,126)**	(1,979,761)
Operating profit after impairment allowances		**1,618,719**	1,157,645
Net losses on disposal of equipment		**(2,272)**	(527)
Net losses on fair value adjustments on investment properties	*24*	**(5,570)**	(610)
Share of losses of associates	*23*	**(43,003)**	(48,781)
Profit before taxation		**1,567,874**	1,107,727
Taxation	*15*	**(126,104)**	(121,830)
Profit for the year			
– Attributable to equity owners of the Bank		**1,441,770**	985,897

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023

	2023 HK$'000	2022 HK$'000 (Restated)
Profit for the year	**1,441,770**	985,897
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on remeasurement of retirement benefit	**2,307**	–
Income tax effect relating to retirement benefit	**(380)**	–
Net gains on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	**611,570**	128,833
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**(218,394)**	(625,514)
Net gains (losses) on investments in debt instruments measured at FVOCI	**174,028**	(253,042)
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	**(30,856)**	(63,757)
Income tax effect relating to disposal of financial assets measured at FVOCI	**5,091**	10,520
Income tax effect relating to fair value change of financial assets measured at FVOCI	**(77,413)**	33,822
Share of other comprehensive income of associates	**–**	1,102
Other comprehensive income for the year (net of tax)	**465,953**	(768,036)
Total comprehensive income for the year	**1,907,723**	217,861
Total comprehensive income attributable to:		
Equity owners of the Bank	**1,907,723**	217,861

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at of 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000 (Restated)
Assets			
Cash and balances and placements with banks	17	**65,508,631**	40,369,605
Derivative financial instruments	18	**1,405,454**	1,610,386
Investments in securities	19	**69,291,896**	65,748,813
Advances and other accounts	21	**167,250,753**	170,407,622
Tax recoverable		**97,550**	104,389
Interests in associates	23	**372,868**	437,689
Investment properties	24	**312,436**	319,764
Property and equipment	25	**1,044,794**	982,682
Deferred tax assets	32	**1,714**	15,644
Intangible assets	34	**757,648**	814,263
Total assets		**306,043,744**	280,810,857
Liabilities			
Deposits and balances with banks	27	**10,917,599**	9,140,137
Financial assets sold under repurchase agreements	26	**5,628,377**	4,504,613
Deposits from customers	27	**239,281,407**	223,488,227
Derivative financial instruments	18	**919,905**	1,300,681
Other accounts and accruals	35	**5,154,691**	4,556,803
Current tax liabilities		**19,895**	13,538
Certificates of deposit	28	**387,415**	–
Loan capital	29	**3,384,753**	1,746,101
Deferred tax liabilities	32	**76,279**	77,904
Total liabilities		**265,770,321**	244,828,004
Equity attributable to owners of the Bank			
Share capital	30	**20,030,884**	17,030,884
Additional equity instruments	31	**5,427,996**	5,427,996
Reserves		**14,814,543**	13,523,973
Total equity		**40,273,423**	35,982,853
Total liabilities and equity		**306,043,744**	280,810,857

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 26 March 2024 and signed on its behalf by:

Li Feng
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2023		17,030,884	5,427,996	(182)	185,073	197,136	1,388,500	(263,811)	614,000	11,403,257	35,982,853
Profit for the year		–	–	–	–	–	–	–	–	1,441,770	1,441,770
Other comprehensive income (net of tax)		–	–	–	682,420	–	–	(218,394)	–	1,927	465,953
Total comprehensive income for the year		–	–	–	682,420	–	–	(218,394)	–	1,443,697	1,907,723
Issue of share capital	*30*	3,000,000	–	–	–	–	–	–	–	–	3,000,000
Distribution payment for additional equity instruments		–	(307,153)	–	–	–	–	–	–	–	(307,153)
Transfer from retained profits		–	307,153	–	–	–	–	–	–	(307,153)	–
Interim dividend paid	*16*	–	–	–	–	–	–	–	–	(180,000)	(180,000)
Final dividend paid	*16*	–	–	–	–	–	–	–	–	(130,000)	(130,000)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	(76,000)	76,000	–
At 31 December 2023		20,030,884	5,427,996	(182)	867,493	197,136	1,388,500	(482,205)	538,000	12,305,801	40,273,423

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Notes	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2021 as originally presented		15,280,884	5,427,996	(182)	330,559	197,136	1,388,500	361,703	582,000	11,027,171	34,595,767
Changes on initial application of HKFRS 17		–	–	–	(2,964)	–	–	–	–	89,542	86,578
Restated balance as of 1 January 2022		15,280,884	5,427,996	(182)	327,595	197,136	1,388,500	361,703	582,000	11,116,713	34,682,345
Profit for the year		–	–	–	–	–	–	–	–	985,897	985,897
Other comprehensive income (net of tax)		–	–	–	(142,522)	–	–	(625,514)	–	–	(768,036)
Total comprehensive income for the year		–	–	–	(142,522)	–	–	(625,514)	–	985,897	217,861
Issue of share capital	*30*	1,750,000	–	–	–	–	–	–	–	–	1,750,000
Distribution payment for additional equity instruments		–	(307,353)	–	–	–	–	–	–	–	(307,353)
Transfer from retained profits		–	307,353	–	–	–	–	–	–	(307,353)	–
Interim dividend paid	*16*	–	–	–	–	–	–	–	–	(100,000)	(100,000)
Final dividend paid	*16*	–	–	–	–	–	–	–	–	(260,000)	(260,000)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	32,000	(32,000)	–
Restated balance as at 31 December 2022		17,030,884	5,427,996	(182)	185,073	197,136	1,388,500	(263,811)	614,000	11,403,257	35,982,853

The retained profits of the Group included retained profits of HK$172,023,000 (2022: retained profits of HK$303,934,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's (the "HKMA") requirements and is distributable to shareholders of the Bank subject to consultation with the HKMA.

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000 (Restated)
OPERATING ACTIVITIES			
Profit before taxation		**1,567,874**	1,107,727
Adjustments for:			
Net interest income	*9*	**(4,979,308)**	(3,984,195)
Net impairment losses on financial assets	*14*	**2,454,126**	1,979,761
Net loss on disposal of equipment		**2,272**	527
Net gains on disposal of debt securities measured at FVOCI	*11*	**(30,856)**	(63,757)
Net loss on fair value adjustments on investment properties	*24*	**5,570**	610
Net gains on financial instruments at fair value through profit or loss		**(182,657)**	(70,298)
Share of losses of associates	*23*	**43,003**	48,781
Net (gains) losses on fair value hedge		**(10,323)**	2,269
Dividend received from investments	*12*	**(18,777)**	(6,713)
Depreciation and amortisation	*13*	**309,551**	352,061
Exchange adjustments		**353,101**	407,778
Operating cash flows before movements in operating assets and liabilities		**(486,424)**	(225,449)
(Increase) decrease in operating assets:			
Placements with banks		**790,804**	(1,458,463)
Financial assets at fair value through profit or loss		**(1,295,060)**	(1,103,689)
Advances to customers		**1,567,511**	(12,013,219)
Reverse repos		**(1,097,040)**	1,378,044
Other accounts		**692,626**	705,337
Increase (decrease) in operating liabilities:			
Deposits and balances with banks		**1,777,462**	1,468,854
Financial assets sold under repurchase agreements		**1,123,764**	2,468,345
Deposits from customers		**15,793,180**	22,401,119
Certificates of deposit		**387,415**	(1,597,765)
Derivative financial instruments		**(406,266)**	411,678
Other accounts and accruals		**223,652**	675,437
Cash generated from operations		**19,071,624**	13,110,229
Hong Kong profits tax paid		**(41,612)**	(160,077)
Overseas tax paid		**(129,415)**	(132,062)
Interest received		**10,458,794**	5,784,472
Interest paid		**(7,223,578)**	(2,239,893)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**22,135,813**	16,362,669

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000 (Restated)
INVESTING ACTIVITIES			
Interest received from investments in securities		**1,504,123**	1,035,004
Dividends received from investments in securities	*12*	**18,777**	6,713
Dividends received from associates		**21,820**	25,380
Purchase of financial assets measured at amortised cost		**(1,537,649)**	(5,808,735)
Purchase of financial assets measured at FVOCI		**(177,332,400)**	(141,012,890)
Purchase of property and equipment		**(27,143)**	(117,763)
Purchase of intangible assets		**(3,189)**	(197)
Proceeds from redemption of financial assets measured at amortised cost		**4,303,286**	2,292,196
Proceeds from sale and redemption of financial assets measured at FVOCI		**173,087,608**	133,622,863
Proceeds from disposal of equipment		**2,302**	37,941
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**37,535**	(9,919,488)
FINANCING ACTIVITIES			
Net proceeds from issue of share capital	*30*	**3,000,000**	1,750,000
Net proceeds from issue of loan capital	*29*	**1,606,500**	1,758,400
Redemption of loan capital	*29*	**—**	(3,004,065)
Interest paid on loan capital	*29*	**(85,380)**	(81,503)
Payment of lease liabilities	*35*	**(181,318)**	(191,166)
Dividends paid to ordinary shareholders		**(310,000)**	(360,000)
Distribution paid on additional equity instruments		**(307,153)**	(307,353)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		**3,722,649**	(435,687)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**25,895,997**	6,007,494
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**38,394,697**	32,387,203
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**64,290,694**	38,394,697
Represented by:			
Cash and balances with central bank and banks		**13,306,567**	11,515,947
Placements with banks			
– with original maturity within three months		**50,984,127**	26,878,750
		64,290,694	38,394,697

The notes on pages 77 to 227 form an integral part of these consolidated financial statements.

1. GENERAL

Chong Hing Bank Limited (the "Bank") is a limited company incorporated in Hong Kong.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

Details of the subsidiaries of the Bank (together collectively referred to as the "Group") are set out in note 22 to the consolidated financial statement.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") are applicable for reporting periods commencing after 1 January 2023:

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) HKFRS 17 "Insurance Contracts" became effective for the accounting periods beginning on or after 1 January 2023 and replaces HKFRS 4 "Insurance Contracts". It is applicable to the Bank's subsidiary (namely Chong Hing Insurance Company Limited) and the Bank's associates (namely Hong Kong Life Insurance Limited and BC Reinsurance Limited). The Group is required to apply HKFRS 17 retrospectively on 1 January 2023 with comparatives restated from 1 January 2022. If, any only if, it is impracticable to apply HKFRS 17 retrospectively on a group of insurance contracts, the Group is allowed to apply the modified retrospective approach or the fair value approach for such a group of insurance contracts.

HKFRS 17 establishes specific principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The insurance and reinsurance contracts of Chong Hing Insurance Company Limited are accounted for under premium allocation approach ("PAA").

The impact of adopting HKFRS 17 and HKFRS 9, if applicable, on the Group's consolidated financial statements as at 1 January 2023 and 1 January 2022, as well as for the year ended 31 December 2022 are presented below. The HKFRS 17 changes involve assumptions, judgements and estimation techniques which are under scrutiny in the first year of implementation and may require refinement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (Continued)

Set out below are disclosures relating to the impact of the adoption of HKFRS 17 on the Group at the transition date (i.e. 1 January 2022):

(i) Reconciliation of consolidated statement of financial position balances as of 31 December 2022 from HKFRS 4 to HKFRS 17

	31 December 2022 under HKFRS 4 (As previously reported) HK$'000	Increase/ (decrease) HK$'000	31 December 2022 under HKFRS 17 (As restated) HK$'000
Assets			
Interests in associates	404,193	33,496	437,689
Reinsurance contract assets under advances and other accounts	3,661	10,696	14,357
All other items under advances and other accounts	170,393,265	–	170,393,265
All other assets	109,965,546	–	109,965,546
	280,766,665	44,192	280,810,857
Liabilities			
Insurance contract liabilities under other accounts and accruals	97,229	3,974	101,203
All other items under other accounts and accruals	4,455,600	–	4,455,600
All other liabilities	240,271,201	–	240,271,201
	244,824,030	3,974	244,828,004
Equity attributable to owners of the Bank			
Share capital	17,030,884	–	17,030,884
Additional equity instruments	5,427,996	–	5,427,996
Retained earnings	11,471,008	(67,751)	11,403,257
Reserves	2,012,747	107,969	2,120,716
	35,942,635	40,218	35,982,853
Total liabilities and equity	280,766,665	44,192	280,810,857

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (Continued)

(ii) Reconciliation of consolidated statement of financial position balances as of 1 January 2022 from HKFRS 4 to HKFRS 17

	1 January 2022 under HKFRS 4 (As previously reported) HK$'000	Increase/ (decrease) HK$'000	1 January 2022 under HKFRS 17 (As restated) HK$'000
Assets			
Interests in associates	426,739	84,010	510,749
Reinsurance contract assets under advances and other accounts	1,106	8,249	9,355
All other items under advances and other accounts	161,829,405	–	161,829,405
All other assets	92,990,308	–	92,990,308
	255,247,558	92,259	255,339,817
Liabilities			
Insurance contract liabilities under other accounts and accruals	104,210	5,681	109,891
All other items under other accounts and accruals	2,721,153	–	2,721,153
All other liabilities	217,826,428	–	217,826,428
	220,651,791	5,681	220,657,472
Equity attributable to owners of the Bank			
Share capital	15,280,884	–	15,280,884
Additional equity instruments	5,427,996	–	5,427,996
Retained earnings	11,027,171	89,542	11,116,713
Reserves	2,859,716	(2,964)	2,856,752
	34,595,767	86,578	34,682,345
Total liabilities and equity	255,247,558	92,259	255,339,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (Continued)

(iii) Reconciliation of consolidated income statement for the year ended 31 December 2022 from HKFRS 4 to HKFRS 17

	2022 under HKFRS 4 (As previously reported) HK$'000	Change HK$'000	2022 under HKFRS 17 (As restated) HK$'000
Interest income	7,404,760	–	7,404,760
Interest expense	(3,420,426)	(139)	(3,420,565)
Net interest income	3,984,334	(139)	3,984,195
Fee and commission income	559,929	–	559,929
Fee and commission expenses	(81,964)	–	(81,964)
Net fee and commission income	477,965	–	477,965
Net income from trading and investments	466,438	–	466,438
Other operating income	177,127	(2,054)	175,073
Operating expenses	(1,972,612)	6,347	(1,966,265)
Operating profit before impairment allowances	3,133,252	4,154	3,137,406
Net impairment losses on financial assets	(1,979,761)	–	(1,979,761)
Operating profit after impairment allowances	1,153,491	4,154	1,157,645
Net loss on disposal of equipment	(527)	–	(527)
Net loss on fair value adjustments on investment properties	(610)	–	(610)
Share of profits (losses) of associates	112,666	(161,447)	(48,781)
Profit before taxation	1,265,020	(157,293)	1,107,727
Taxation	(121,830)	–	(121,830)
Profit for the year – Attributable to equity owners of the Bank	1,143,190	(157,293)	985,897

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (Continued)

(iv) Reconciliation of consolidated statement of comprehensive income for the year ended 31 December 2022 from HKFRS 4 to HKFRS 17

	2022 under HKFRS 4 (As previously reported) HK$'000	Change HK$'000	2022 under HKFRS 17 (As restated) HK$'000
Profit for the year	1,143,190	(157,293)	985,897
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss	128,833	–	128,833
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of associates	(109,831)	110,933	1,102
All other items that may be reclassified subsequently to profit or loss	(897,971)	–	(897,971)
Other comprehensive income for the year, net of tax	(878,969)	110,933	(768,036)
Total comprehensive income for the year	264,221	(46,360)	217,861
Total comprehensive income attributable to:			
Equity owners of the Bank	264,221	(46,360)	217,861

(b) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 4 to the consolidated financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's consolidated financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective. The Group intends to apply these revised HKFRSs, if applicable, when they become effective. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

Amendments to HKFRS 10 and HKAS 28	*Sale on Contribution of Assets between an Investor and its Associate on Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1, 4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

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

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

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion.

4. MATERIAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and the applicable disclosures required by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost convention except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities directly or indirectly controlled by the Bank and its subsidiaries (including structured entities). Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

FINANCIAL INSTRUMENTS

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods *(Continued)*

Amortised cost and effective interest rate (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not POCI but have subsequently become credit-impaired (or "Stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance).

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods (Continued)

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. 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.

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

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Classification and subsequent measurement of debt instruments depend on:

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

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- 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. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss and recognised in "Net income from trading and investments". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

- Fair value through profit or loss: 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 investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated income statement within 'Net income from trading and investments' in the period in which it arises.

  Business model: 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 (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model 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 were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

SPPI: 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. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement (cash flow are not SPPI), the related financial asset is classified and measured at fair value through profit or loss irrespective of the business model.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity (under HKAS 32 "*Financial Instruments: Presentation*") 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. The classification is determined on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Gains and losses on equity investments at FVPL are included in the "Net income from trading and investments" line in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(ii) Impairment

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

(iv) Derecognition other than on a modification (Continued)

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

(v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities

(i) *Classification and subsequent measurement*

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies (see Note 4(iv)); and

- Financial guarantee contracts and loan commitments.

For financial liabilities measured at amortised cost, after initial recognition, interest-bearing financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expenses in the consolidated income statement.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities *(Continued)*

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 financial asset and settle the financial liability simultaneously. The legal 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 counterparty.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and

- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the impairment allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

DERIVATIVES AND HEDGING ACTIVITIES

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

DERIVATIVES AND HEDGING ACTIVITIES *(Continued)*

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the consolidated income statement as net income from trading and investments. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement as net income from trading and investments.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

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 financial assets sold under repurchase agreements, and are carried in the consolidated statement of financial position at amortised cost.

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

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

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Goodwill is initially measured at cost, and measured at cost less any accumulated impairment losses after initial recognition.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Computer software and internally developed software

Costs associated with maintaining computer software and internally developed software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Direct attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

INTERESTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, less any impairment losses. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition results and other comprehensive income of the associates in the consolidated income statement and consolidated statement of other comprehensive income, respectively. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INTERESTS IN ASSOCIATES *(Continued)*

The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the consolidated statement of financial position and Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

Revenue from contracts with customers

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

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

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

Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. 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, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Performance obligations satisfied over time mainly include investment management, loans, overdrafts and guarantees and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include services where performance obligations are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from account management, sales and placement, securities dealings, credit card, loans, overdrafts and guarantees and trade finance.

Dividend income

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of dividend can be measured reliably).

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Performance obligations satisfied over time include asset management, advisory, safe deposit box rentals and other banking services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include services where performance obligations are satisfied over time.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These mainly include services arising from remittance, settlement, account management, money exchange, autopay, direct debit and other banking services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Agency commission

Agency commission received or receivable is recognised when services are provided.

PROPERTY AND EQUIPMENT

Property and equipment including equipment, land and buildings, which mainly comprise of branches and offices are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

PROPERTY AND EQUIPMENT *(Continued)*

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

Depreciation is calculated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the lease
Buildings	Over its estimated useful life of 50 years or over the remaining term of lease of the leasehold land, whichever is the shorter
Equipment	5-15 years

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the period in which the item is derecognised.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment" for owned property and/or accounts for such property in accordance with the policy stated under "Leases" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment" above.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. 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.

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

Group companies and oversea branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised in other comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas branches are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas branches which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit plan

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (excluding amount included in net interest on the net defined benefit liability) and the return on plan assets (excluding amount included in net interest on the net defined benefit liability), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the consolidated income statement in subsequent periods. Past service costs are recognised in profit or loss at the earlier of the date of the plan amendment or curtailment; and the date that the Group recognises restructuring-related costs. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and non-routine settlements), recognised in the consolidated income statement;

- net interest expense or income, recognised in the consolidated income statement; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

Defined benefit plan *(Continued)*

- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

BONUS PLANS

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

DIVIDENDS

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

Proposed final dividends are disclosed in the notes to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Bank's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future and when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts deferred tax liabilities or assets are expected to be settled or recovered.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central bank and banks and placements with banks.

LEASES

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The group as lessee

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate and the payments to be made under reasonably certain to exercise termination option. 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 the lease. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other accounts and accruals.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

LEASES *(Continued)*

The group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, initial direct costs incurred, any lease payments made at or before the commencement date less any lease incentive received and also includes an estimates of costs to dismantle and remove the underlying asset or to restore the underlying asset on the site on which is located. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are presented within "Property and equipment" in the consolidated statement of financial position.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement over the lease term. Short-term leases are leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets comprise small items of equipment.

The group as lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACTS

HKFRS 17 sets out the requirements that the Group applies in accounting for insurance contracts it issues, reinsurance contracts it holds and investment contracts with discretionary participation features it issues.

An insurance contract is a contract under which the issuer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Definition and classification

Insurance contracts are contracts under which the Group accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Group uses judgement to access whether a contract transfers insurance risk (that is, if there is a scenario with commercial substance in which the Group has the possibility of a loss on a present value basis) and the whether the accepted insurance risk is significant.

Contracts that have a legal form of insurance but do not transfer significant insurance risk and expose the Group to financial risk are classified as investment contracts, and they follow financial instruments accounting under HKFRS 9, if they do not contain a discretionary participation feature ("DPF"). The Group does not issue any investment contracts with DPF.

In the normal course of business, the Group uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in the financial information apply to insurance contracts issued (including reinsurance contracts issued) and reinsurance contracts held, unless specifically stated otherwise.

Unit of accounts

(i) Level of aggregation of insurance contracts

The Group manages insurance contracts issued by product lines within an operating segment, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are:

(a) contracts that are onerous at initial recognition;

(b) contracts that an initial recognition have no significant possibility of becoming onerous subsequently; or

(c) a group of remaining contracts.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

These groups represent the level of aggregation at which insurance contracts are initial recognised and measured. Such groups are not subsequently reconsidered.

For each portfolio of contracts, the Group determines the appropriate level at which reasonable and supportable information is available, to access whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The Group uses significant judgement to determine at what level of granularity the Group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment,

For contracts measured using the PAA, the Group assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment it performed to distinguish onerous contracts from non-onerous ones. For non-onerous contracts, the Group assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous.

Portfolios of reinsurance contract held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of:

(a) contracts for which there is a net gain at initial recognition, if any,

(b) contracts for which, at initial recognition, there is no significant possibility of net gain arising subsequently; and

(c) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Group tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

(ii) Separation of insurance contracts

Before the Group accounts for an insurance contract based on the guidance in HKFRS 17, it analyses whether the contract contains components that should be separated. HKFRS 17 distinguishes three categories of components that have to be accounted for separately:

(a) cash flows relating to embedded derivatives that are required to be separated;

(b) cash flows relating to distinct investment components; and

(c) promises to transfer distinct goods or distinct services other than insurance contract services.

The Group applies HKFRS 17 to all remaining components of the contract. The Group does not have any contracts that require further separation or combination of insurance contracts.

Recognition of insurance contracts

Groups of insurance contracts issued are initial recognised from the earliest of the following:

(i) the beginning of the coverage period;

(ii) the date when the first payment from the policyholder is due or actually received, if there is no due date; and

(iii) when the Group determines that a group of contracts becomes onerous.

Groups of reinsurance contracts held are recognised as follows:

(i) A group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) recognised at the later of:

(a) The beginning of the coverage period of the group; and

(b) The initial recognition of any underlying insurance contract;

(ii) All other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of insurance contract held.

Unless the Group entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the group of reinsurance contract held recognised at the same time as the group of underlying insurance contracts recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria, subject to the annual cohorts restriction. Composition of the new groups is not reassessed in subsequent periods.

The Group applies HKFRS 17 to all remaining components of the contract. The Group does not have any contracts that require further separation or combination of insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts

(i) Insurance contracts – initial measurement

The Group applies the premium allocation approach ("PAA") to all the insurance contracts that it issues and reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary

or

- For contracts longer than one year, the Group has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Group has also considered qualitative factors such as the nature of the risk and types of its lines of business.

The Group does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

- The extent of future cash flows related to any derivatives embedded in the contracts
- The length of the coverage period of the group of contracts

For a group of contracts that is not onerous at initial recognition, the Group measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed,
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Group pays or receives before the group of insurance contracts is recognised.

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts (Continued)

(ii) Reinsurance contracts held – initial measurement

The Group measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

(iii) Insurance contracts – subsequent measurement

The Group measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, with the exception of property insurance product line for which the Group chooses to expense insurance acquisition cash flows as they occur
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Group, and include an explicit adjustment for non-financial risk (the risk adjustment). The Group does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to profit or loss.

(iv) Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

INSURANCE CONTRACT *(Continued)*

Measurement of insurance contracts and reinsurance contracts *(Continued)*

(v) Insurance acquisition cash flow

The Group defines acquisition cash flows as cash flows that arise from cost of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Group applies HKFRS 17 to all remaining components of the contract. The Group does not have any contracts that require further separation or combination of insurance contracts.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

(a) to that group; and

(b) to group that will include insurance contracts that are expected to arise from renewals of the contracts in that group.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

4. MATERIAL ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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) and the sponsoring employers of the post-employment benefit plan;

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the critical judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(A) MEASUREMENT OF THE EXPECTED CREDIT LOSS ALLOWANCE

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, financial assets measured at FVOCI, loan commitment and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The Group establishes, through charges against profit, impairment allowances in respect of expected credit losses on financial instrument. The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment loss
Stage 1	Performing	12-month ECL
Stage 2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
Stage 3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

In response to the deterioration in the property market in China since year 2022, the management of the Group exercised judgment in assessing significant increase in credit risk arising from counterparties associated with real estate industry in China, and determining the respective ECL stage with reference to the ECL model framework of the Group.

Detailed information about the judgments and estimates made by the Group is set out in Note 7.

(B) FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For unlisted equity securities, the fair value are estimated using a market-based valuation technique and based on assumption that are not supported by observable market prices or rates. For derivative financial instruments assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are set out in Note 7.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(C) MEASUREMENT OF INSURANCE CONTRACTS

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group's previous accounting treatment under HKFRS 4. However, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

Transitional impact on the measurement of insurance contracts upon adoption of HKFRS 17 is set out in Note 2.

6. SEGMENT INFORMATION

(A) OPERATING SEGMENTS

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services and others services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities business of the Group includes securities trading and stockbroking.

Others comprise investment holding, insurance and futures broking, insurance underwriting, other investment advisory services, property investments and central management unit.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2023 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	9,290,389	3,253,718	5,032	26,239	–	12,575,378
Interest expense to external customers	(7,172,197)	(299,979)	(11)	(123,883)	–	(7,596,070)
Inter-segment interest income *(Note)*	1,952,633	—	22,449	1,243,579	(3,218,661)	–
Inter-segment interest expense *(Note)*	—	(3,218,661)	–	—	3,218,661	–
Net interest income	4,070,825	(264,922)	27,470	1,145,935	–	4,979,308
Fee and commission income	297,105	1,922	78,661	9,635	–	387,323
Fee and commission expenses	(97,101)	(124)	(222)	–	–	(97,447)
Net income from trading and investments	258,340	294,250	(38)	(326)	–	552,226
Other operating income	142,862	–	820	37,784	–	181,466
Total operating income						
Segment revenue	4,672,031	31,126	106,691	1,193,028	–	6,002,876
Comprising:						
– Segment revenue from external customers	2,719,398	3,249,787	84,242	(50,551)		
– Inter-segment transactions	1,952,633	(3,218,661)	22,449	1,243,579		
Operating expenses	(1,598,213)	(125,961)	(83,560)	(122,297)	–	(1,930,031)
Net impairment (losses) reversal on financial assets	(2,481,641)	27,504	7	4	–	(2,454,126)
Segment profit (losses)	592,177	(67,331)	23,138	1,070,735	–	1,618,719
Unallocated corporate expenses						(7,842)
Share of losses of associates						(43,003)
Profit before taxation						1,567,874
Taxation						(126,104)
Profit for the year						1,441,770

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2023 is presented below: (Continued)

Operating segment assets and liabilities as of 31 December 2023

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	181,726,273	121,980,537	217,842	401,399	304,326,051
Interests in associates					372,868
Unallocated corporate assets					1,344,825
Consolidated total assets					306,043,744
Liabilities					
Segment liabilities	242,013,683	22,128,856	178,707	155,327	264,476,573
Unallocated corporate liabilities					1,293,748
Consolidated total liabilities					265,770,321

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	24,486	26	61	679	5,080	30,332
Depreciation and amortisation	285,522	21,885	1,728	416	–	309,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2022 is presented below:

Operating segment revenues and results

(restated)	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	6,088,454	1,307,513	5,236	3,557	–	7,404,760
Interest expense to external customers	(3,343,967)	(42,258)	(22)	(34,318)	–	(3,420,565)
Inter-segment interest income *(Note)*	889,774	—	6,115	—	(895,889)	–
Inter-segment interest expense *(Note)*	—	(1,184,316)	–	288,427	895,889	–
Net interest income	3,634,261	80,939	11,329	257,666	–	3,984,195
Fee and commission income	449,007	344	105,555	5,023	–	559,929
Fee and commission expenses	(81,574)	(172)	(218)	–	–	(81,964)
Net income from trading and investments	262,213	195,460	(3)	8,768	–	466,438
Other operating income	135,433	–	797	38,843	–	175,073
Total operating income						
Segment revenue	4,399,340	276,571	117,460	310,300	–	5,103,671
Comprising:						
– Segment revenue from external customers	3,509,566	1,460,887	111,345	21,873		
– Inter-segment transactions	889,774	(1,184,316)	6,115	288,427		
Operating expenses	(1,603,498)	(145,549)	(84,343)	(132,875)	–	(1,966,265)
Net impairment (losses) reversal on financial assets	(2,008,472)	28,708	1	2	–	(1,979,761)
Segment profit	787,370	159,730	33,118	177,427	–	1,157,645
Unallocated corporate expenses						(1,137)
Share of losses of associates						(48,781)
Profit before taxation						1,107,727
Taxation						(121,830)
Profit for the year						985,897

Note: Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

Due to the revision in the inter-segment pricing policy during the year applied to operating segments, certain comparative figures have been restated to conform to the current year's presentation.

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2022 is presented below: (Continued)

Operating segment assets and liabilities as of 31 December 2022

(restated)	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Consolidated HK$'000
Assets					
Segment assets	183,678,639	94,870,603	231,491	264,852	279,045,585
Interests in associates					437,689
Unallocated corporate assets					1,327,583
Consolidated total assets					280,810,857
Liabilities					
Segment liabilities	226,110,332	17,588,991	145,677	130,587	243,975,587
Unallocated corporate liabilities					852,417
Consolidated total liabilities					244,828,004

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	80,448	709	410	5,402	30,991	117,960
Depreciation and amortisation	316,800	31,995	2,106	1,160	–	352,061

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

6. SEGMENT INFORMATION *(Continued)*

(B) GEOGRAPHICAL INFORMATION

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2023						
	Total operating income HK$'000	Profit (loss) before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	4,786,959	1,067,676	7,759	209,610,931	177,140,094	49,936,491	2,156,043
Mainland China	1,177,931	631,742	22,573	92,210,295	84,603,910	25,715,562	325,621
Macau	37,986	(131,544)	–	4,222,518	4,026,317	486,509	7,796
Total	6,002,876	1,567,874	30,332	306,043,744	265,770,321	76,138,562	2,489,460

	2022						
(restated)	Total operating income HK$'000	Profit (loss) before taxation HK$'000	Capital expenditure during the year HK$'000	Total assets HK$'000	Total liabilities HK$'000	Total contingent liabilities and commitments HK$'000	Non-current assets HK$'000
Hong Kong	3,660,874	347,703	59,143	192,166,936	163,800,123	41,137,176	2,168,064
Mainland China	1,379,269	766,998	58,601	83,944,360	76,657,143	18,219,300	390,755
Macau	63,528	(6,974)	216	4,699,561	4,370,738	168,079	11,223
Total	5,103,671	1,107,727	117,960	280,810,857	244,828,004	59,524,555	2,570,042

Note: Total operating income consists of net interest income, net fee and commission income, net income from trading and investments and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, deferred tax assets and intangible assets.

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7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance. The material risk types associated with the Bank are credit risk, market risk (including currency risk, interest rate risk and price risk) and liquidity risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2023 HK$'000	2022 HK$'000
Financial assets		
Financial assets measured at fair value through profit or loss	**4,799,177**	3,526,392
Financial assets measured at FVOCI *(Note 1)*	**64,835,586**	65,337,607
Financial assets measured at amortised cost (including cash and cash equivalents) *(Note 2)*	**233,789,402**	209,232,322
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	**945,029**	1,300,681
Financial liabilities measured at amortised cost	**264,469,102**	243,134,175

Note 1: Amount included trade bills measured at FVOCI of HK$2,707,761,000 (2022: HK$7,982,708,000) under advances and other accounts in the consolidated statement of financial position.

Note 2: Amount included amortised cost debt securities with fair value hedge adjustment of HK$936,996,000 (2022: HK$1,074,123,000).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures") including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board and head of each business unit.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit risk officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit risk officer.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk rating

The Group uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being default. Borrower and loan specific information, both quantitative and qualitative, such as profitability ratio and industry type for corporate banking customers, are fed into the rating model to estimate the default risk. The internal credit risk rating is applied on corporate and corporate top tier segments only.

Expected credit loss measurement

HKFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

A financial instrument that has not had a significant changes in credit risk ("SICR") since initial recognition or that has low credit risk at the reporting date is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Measuring ECL in accordance with HKFRS 9 requires consideration of forward-looking information.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into mortgage, credit card, overdraft, personal loan and etc.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions and etc. Credit limit is also considered to further classify the corporate loans into Corporate Top Tier and Corporate.

Treasury

The treasury exposures are grouped based on the issuer type – bank, corporate and sovereign.

Others

For exposures from subsidiaries and overseas branches and sub-branches, they are grouped based on the business type of the subsidiaries and geographic location of the overseas branches and sub-branches.

Determining criteria for SICR

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Group's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

The Group adopts "Policy & Procedures for Loan Classification" based on the HKMA guidelines. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Group also maintains an Early Warning ("EW") list, which includes borrowers who exhibit risks or potential weaknesses of material nature requiring closer monitoring, supervision, or attention by management. The EW accounts are classified into three categories, namely Low Risk, Medium Risk and High Risk.

A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):

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for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining criteria for SICR (Continued)

- Contractual payments are equal to or more than 30 days and less than 90 days past due;
- Loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification";
- Significant change in external credit rating, i.e. migrating from investment grade to speculative grade, (applicable to treasury portfolios only);
- Any Medium or High risk borrower in the EW List. High risk EW borrowers present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW borrowers exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk borrowers are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of its creditworthiness and it is placed on early warning solely for precautionary purpose, elevated attention and closer monitoring; and
- Any facility with current credit risk rating downgraded by two or more notches compared with the credit risk rating at origination, (applicable to Corporate and Corporate Top Tier segments only).

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Determining definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is aligned with definition of credit impaired, when it meets one or more of following criteria:

- A loan is classified as Substandard, Doubtful or Loss according to the "Policy & Procedures for Loan Classification";
- A financial asset is 90 days past due or more than 90 days past due on the contractual payments;
- Loan is identified as restructured; and
- Loan is identified as forbearance.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for the internal credit risk management purpose.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining appropriate models and assumption of the measurement of ECL

The ECL is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit risk has occurred since origination or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"). PD, EAD and LGD are defined as follows:

– The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD").

– LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by internal credit risk rating, observed historical data and macroeconomic variables. The relationship between PD and macroeconomic variables is developed by the statistical regression model and the lifetime PD is derived by input of forward-looking macroeconomic variables.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type.

Loans and advances

– For non-revolving products, this is based on the outstanding balance owed by the borrower over a 12-month or lifetime basis.

– For revolving products, the exposure at default is predicted by taking current drawn balance and adding an "adjustment factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Treasury

For treasury portfolios, the 12-month and lifetime EADs are calculated depending on the product type and booking type.

Measurement of LGD

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

– For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales and time to recovery observed.

– For unsecured products, LGD are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD are influenced by collection strategies. Historical data and Basel model requirement are analysed to derive the LGD.

– For Stage 3 account, other expected future cash flow may also take into consideration if any repayment schedule is confirmed.

The assumptions underlying the ECL calculation are monitored and reviewed regularly. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

Incorporating forward-looking information into the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The forward-looking element is reflected through the impact on PD and LGD models.

The economic variables and their associated impact on PD and LGD vary by financial instruments. Regression analysis was applied to select the most significant economic factors impacting the PD and LGD for each portfolio and to determine their associated impact on PD and LGD. This process involved experts' judgments.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Incorporating forward-looking information into the ECL models (Continued)

The forward-looking element is reflected by applying the forecasts of the economic variables included in the PD and LGD models. Forecasts of these economic variables are sourced from a leading economic forecasting provider.

According to the HKFRS 9, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. The Group applied three macroeconomic scenarios, namely the Good scenario, the Base scenario and the Bad scenario at the end of 2023.

Good, Base and Bad Scenarios

The Good scenario reflects the optimistic view of the future performance of the economy, while the Base scenario reflects the average performance of the economy in future. The Bad scenario assumes the potential economy downturn in future. In this scenario setting process, the Group considered the current economic environment, market forecasts in coming year and management's views on economic outlook.

For Base Scenario, it is set to reflect the current economic environment with consideration of the market forecast on domestic Real GDP YoY Growth Rate would maintain at the similar level in coming years. For Bad Scenario, it was assumed that the economy entered a downturn. Under Bad Scenario, domestic GDP YoY Growth Rate was considered to drop to the extent with negative growth resulting from the high interest rate and continuous geopolitical tensions. For Good scenario, it featured stronger economic activity in the near term as the entire economy has bottomed out during the late stage of local epidemic.

The weighting of each scenario is determined by management judgments with consideration of geographic sectors, macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions

The Group has included various economic forecast variables in the forward-looking models to estimate the ECL for different portfolios. When assessing the significance of assumptions for the ECL estimate, the Group has considered the extent of the usage of the economic variables and the ECL impact of the corresponding portfolio.

Corporate and Treasury portfolios account for the majority of ECL. Key economic factors as significant to ECL are summarised as follows:

– Hong Kong economic variables – GDP YoY Change %, Property Price QoQ Change % and Hong Kong Unemployment Rate

– Mainland China's economic variables – GDP QoQ Change % and China Unemployment Rate

GDP (YoY/QoQ) Change %

GDP Change % is one of key economic variables reflecting the economic environment. It has significant impact on companies' performance. The domestic GDP of Hong Kong and Mainland China impacts their PD estimation respectively.

Unemployment Rate

Same as GDP, the Unemployment Rate of Hong Kong and Mainland China impacts their PD estimation respectively. It has significant relationship with customers' repayment ability.

Property Price QoQ Change %

Property Price is another key economic variable reflects the economic environment. It impacts both PD and LGD estimations. Collateral value would be inflated when property market is positive and hence lowers the LGD.

The trends of the economic variables are critical to ECL estimate, therefore, assumptions are presented individually for years of 2023, 2024 and 2025.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions *(Continued)*

The most significant period-end assumptions used for ECL are set out below, in which annual average refers to the average of four quarter-end forecasts for the macroeconomic values.

	Scenario	2023 (Annual average)	2024 (Annual average)	2025 (Annual average)
Hong Kong Forecast Factors				
GDP YoY Change %	Base	**3.49%**	3.92%	2.12%
	Good	**3.49%**	8.33%	5.07%
	Bad	**3.49%**	-6.03%	-3.31%
Unemployment rate	Base	**2.90%**	2.95%	3.07%
	Good	**2.90%**	2.33%	2.28%
	Bad	**2.90%**	4.61%	5.22%
Property price QoQ Change %	Base	**0.08%**	0.93%	1.18%
	Good	**0.08%**	2.16%	2.35%
	Bad	**0.08%**	-1.72%	-0.83%
Mainland China Forecast Factors				
GDP QoQ Change %	Base	**1.24%**	1.45%	0.96%
	Good	**1.24%**	2.91%	1.19%
	Bad	**1.24%**	-1.12%	0.18%
Unemployment rate	Base	**4.21%**	4.06%	4.05%
	Good	**4.21%**	3.70%	3.47%
	Bad	**4.21%**	4.68%	5.50%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions *(Continued)*

As of 31 December 2023, the ECL estimate of Stage 1 and Stage 2 was HK$929 million (2022: HK$977 million) with the probability weighting assigned as shown in the table below.

	Scenario	2022 Weighting	2023 Weighting
Hong Kong portfolio Scenario Weighting	Base	75%	**80%**
	Good	5%	**10%**
	Bad	20%	**10%**
Mainland China portfolio Scenario Weighting	Base	75%	**80%**
	Good	5%	**10%**
	Bad	20%	**10%**

– By assuming 5% scenario weight shift between Base scenario and Bad scenario, there would be an increase/decrease in expected credit loss by approximately HK$18.0 million as of 31 December 2023 (2022: HK$20.2 million).

As of 31 December 2023, the most significant assumptions used for the ECL estimate were set out below:

	Scenario	Average (2023–2025)
Hong Kong Forecast Factor		
GDP YoY Change %	Base	3.18%
	Good	5.63%
	Bad	-1.95%
Mainland China Forecast Factor		
GDP QoQ Change %	Base	1.22%
	Good	1.78%
	Bad	0.10%

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Management judgment and overlay

As of 31 December 2023 and 2022, the Group makes a post-model overlay for its Mainland China portfolio to factor in the latest default experience of its China real estate sectors as the models might not be robust enough to capture the unprecedented challenges in China real estate sectors amid limited historical default data.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments. For advances to customers and loan commitments and financial guarantee contracts, credit rating from "Guideline on loan classification system" issued by Hong Kong Monetary Authority is adopted. For debt securities, balances and placements with banks, credit rating from Moody's, or equivalent, is adopted. Debt securities not rated by Moody's, or equivalent, are treated as unrated ones. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure *(Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Advances to customers

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	148,411,467	6,792,361	–	155,203,828
Special mention	–	2,294,247	99,950	2,394,197
Substandard	–	–	2,586,362	2,586,362
Doubtful	–	–	1,980,288	1,980,288
Loss	–	–	946	946
Gross carrying amount at 31 December	148,411,467	9,086,608	4,667,546	162,165,621
Impairment allowance	528,717	238,665	1,547,488	2,314,870
Carrying amount at 31 December	147,882,750	8,847,943	3,120,058	159,850,751

	2022			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	156,659,000	3,755,194	–	160,414,194
Special mention	–	1,811,375	27,853	1,839,228
Substandard	–	–	3,590,641	3,590,641
Doubtful	–	–	848,135	848,135
Loss	–	–	11,935	11,935
Gross carrying amount at 31 December	156,659,000	5,566,569	4,478,564	166,704,133
Impairment allowance	509,440	210,812	2,068,076	2,788,328
Carrying amount at 31 December	156,149,560	5,355,757	2,410,488	163,915,805

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the consolidated statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2023, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$17,468,000 (2022: HK$66,319,000).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure *(Continued)*

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Debt securities

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
External credit rating				
Aaa	2,005,578	–	–	2,005,578
Aa1 to Aa3	17,190,670	–	–	17,190,670
A1 to A3	36,879,058	–	–	36,879,058
Lower than A3	6,722,083	328,245	–	7,050,328
Unrated	1,957,716	–	–	1,957,716
Gross carrying amount at 31 December	64,755,105	328,245	–	65,083,350
Impairment allowance				
– for debt securities at amortised cost	6,293	–	–	6,293
– for debt securities at FVOCI	49,078	19,486	–	68,564
Carrying amount at 31 December	64,748,812	328,245	–	65,077,057

	2022			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
External credit rating				
Aaa	9,175,481	–	–	9,175,481
Aa1 to Aa3	8,372,707	–	–	8,372,707
A1 to A3	33,438,116	–	–	33,438,116
Lower than A3	11,576,289	13,481	–	11,589,770
Unrated	1,066,256	–	–	1,066,256
Gross carrying amount at 31 December	63,628,849	13,481	–	63,642,330
Impairment allowance				
– for debt securities at amortised cost	19,327	–	–	19,327
– for debt securities at FVOCI	85,608	1,130	–	86,738
Carrying amount at 31 December	63,609,522	13,481	–	63,623,003

The impairment allowances of debt securities at FVOCI are not recognised in the consolidated statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Loan commitments and financial guarantee contracts

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	13,640,413	615,525	–	14,255,938
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
At 31 December	13,640,413	615,525	–	14,255,938
Impairment allowance	25,761	3,742	–	29,503

	2022			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Internal credit grading				
Pass	11,261,539	249,176	–	11,510,715
Special mention	–	58,000	–	58,000
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
At 31 December	11,261,539	307,176	–	11,568,715
Impairment allowance	32,962	5,890	–	38,852

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Other financial assets

Other financial assets mainly include balances and placements with banks and other receivables. The Group held balances and placements with banks of HK$65,005,319,000 as of 31 December 2023 (2022: HK$39,763,301,000), which are rated at investment grade based on Moody's or equivalent ratings. The placements with banks is neither past due nor impaired and unsecured.

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	2023 HK$'000	2022 HK$'000
Financial assets at fair value through profit or loss		
– Debt securities	**2,072,530**	114,448
– Other securities	**1,321,193**	1,801,558
– Derivatives	**1,034,438**	965,892
Hedging derivatives	**371,016**	644,494

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

– Mortgages over residential properties;

– Margin agreement for derivatives, for which the Group has also entered into master netting agreements;

– Charges over business premises; and

– Charges over financial instruments such as debt securities and equities.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements *(Continued)*

Collateral held as securities for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Derivatives under International Swap and Derivatives Association ("ISDA") credit support annex, such as Credit Support Annex ("CSA"), Credit Support Annex for Variation Margin ("VMCSA") and etc, are also collateralised.

As of 31 December 2023, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$1,498,346,000 (2022: HK$182,378,000). As of 31 December 2023, the Group had not sold or re-pledged such collateral (2022: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Collateral and other credit enhancements (Continued)

Credit-impaired assets

	2023				
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000	Gross exposure covered by collateral held HK$'000 Note
Loans and advances to customers					
Overdrafts	25,075	(15,077)	9,998	11,191	11,179
Instalment loans	191,563	(3,293)	188,270	393,865	189,094
Term loans	983,945	(427,363)	556,582	39,439	39,439
Syndication loans	3,406,617	(1,067,265)	2,339,352	511,534	511,534
Trade finance	59,054	(33,797)	25,257	28,071	28,026
Personal loans and tax loans	803	(204)	599	1,343	639
Other	489	(489)	–	–	–
Total credit-impaired assets	4,667,546	(1,547,488)	3,120,058	985,443	779,911

	2022				
	Gross exposure HK$'000	Stage 3 ECL allowance HK$'000	Carrying amount HK$'000	Fair value of collateral held HK$'000	Gross exposure covered by collateral held HK$'000 Note
Loans and advances to customers					
Overdrafts	30,286	(14,730)	15,556	17,248	17,204
Instalment loans	138,855	(2,460)	136,395	227,658	137,034
Term loans	431,869	(193,210)	238,659	86,199	66,011
Syndication loans	3,799,942	(1,830,765)	1,969,177	517,404	517,404
Trade finance	76,428	(26,490)	49,938	68,442	53,074
Personal loans and tax loans	921	(158)	763	1,711	797
Other	263	(263)	–	–	–
Total credit-impaired assets	4,478,564	(2,068,076)	2,410,488	918,662	791,524

Note: Loans and advances secured by collateral are determined as the lower of the market value of collateral or oustanding loan principal.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance

The following tables explain the changes in gross exposure and the impairment allowance between the beginning and the end of the annual period due to these factors:

Advances to customers

	2023							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000
Balance at 1 January	156,659,000	575,759	5,566,569	210,812	4,478,564	2,068,076	166,704,133	2,854,647
Transfers:								
Transfer from Stage 1 to Stage 2	(3,329,927)	(9,958)	3,329,927	125,393	–	–	–	115,435
Transfer from Stage 2 to Stage 1	122,889	75	(122,889)	(1,193)	–	–	–	(1,118)
Transfer to Stage 3	(2,571,300)	(11,150)	(750,083)	(139,676)	3,321,383	1,529,391	–	1,378,565
Transfer from Stage 3	6,895	2	4,818	10	(11,713)	(37)	–	(25)
Net new financial assets originated (asset derecognised)	10,962,581	41,436	1,614,666	48,916	(42,906)	(169,552)	12,534,341	(79,200)
Changes in PDs/LGDs/EADs	(11,925,085)	(82,112)	(549,847)	(3,058)	(5,458)	1,191,934	(12,480,390)	1,106,764
Changes in model assumption and methodologies	–	40,134	–	(1,334)	–	–	–	38,800
Amounts written off	–	–	–	–	(3,072,324)	(3,072,324)	(3,072,324)	(3,072,324)
Other movements	(1,513,586)	(8,001)	(6,553)	(1,205)	–	–	(1,520,139)	(9,206)
Balance at 31 December	148,411,467	546,185	9,086,608	238,665	4,667,546	1,547,488	162,165,621	2,332,338

	Total HK$'000
Change in ECL in income statement charge for the year	2,559,221
Add: Recoveries	(59,871)
Add: Others	446
Total ECL charge for the year	2,499,796

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Advances to customers *(Continued)*

	2022							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000	Gross exposure HK$'000	Impairment allowance HK$'000
Balance at 1 January	147,514,447	570,700	5,547,792	88,268	1,998,724	547,156	155,060,963	1,206,124
Transfers:								
Transfer from Stage 1 to Stage 2	(2,678,373)	(17,935)	2,678,373	195,726	–	–	–	177,791
Transfer from Stage 2 to Stage 1	1,853,688	3,512	(1,853,688)	(27,702)	–	–	–	(24,190)
Transfer to Stage 3	(2,587,012)	(14,458)	(1,025,673)	(27,105)	3,612,685	1,680,158	–	1,638,595
Transfer from Stage 3	19,719	8	–	–	(19,719)	(2,728)	–	(2,720)
Net new financial assets originated (asset derecognised)	25,295,115	154,485	(716,923)	(20,032)	(1,110,243)	(243,085)	23,467,949	(108,632)
Changes in PDs/LGDs/EADs	(9,288,479)	(202,801)	949,143	2,352	123,027	212,485	(8,216,309)	12,036
Changes in model assumption and methodologies	–	107,566	–	(572)	–	–	–	106,994
Amounts written off	–	–	–	–	(125,910)	(125,910)	(125,910)	(125,910)
Other movements	(3,470,105)	(25,318)	(12,455)	(123)	–	–	(3,482,560)	(25,441)
Balance at 31 December	156,659,000	575,759	5,566,569	210,812	4,478,564	2,068,076	166,704,133	2,854,647

	Total HK$'000
Change in ECL in income statement charge for the year	2,007,882
Add: Recoveries	(510)
Add: Others	22,117
Total ECL charge for the year	2,029,489

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2023, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$17,468,000 (2022: HK$66,319,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

Debt securities

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	104,935	1,130	–	106,065
Transfers:				
Transfer from Stage 1 to Stage 2	(679)	11,470	–	10,791
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	14,256	5,946	–	20,202
Changes in PDs/LGDs/EADs	(62,907)	948	–	(61,959)
Changes in model assumption and methodologies	–	–	–	–
Other movements	(234)	(8)	–	(242)
Balance at 31 December	55,371	19,486	–	74,857
Of which:				
For debt securities at amortised cost	6,293	–	–	6,293
For debt securities at FVOCI	49,078	19,486	–	68,564
	55,371	19,486	–	74,857

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Debt securities *(Continued)*

	2022			
	Stage 1 12-month ECL HK$'000	**Stage 2 Lifetime ECL HK$'000**	**Stage 3 Lifetime ECL HK$'000**	**Total HK$'000**
Balance at 1 January	112,395	13,832	–	126,227
Transfers:				
Transfer from Stage 1 to Stage 2	(9)	1,130	–	1,121
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase (redemption) of debt securities	5,160	(13,832)	–	(8,672)
Changes in PDs/LGDs/EADs	(12,611)	–	–	(12,611)
Changes in model assumption and methodologies	–	–	–	–
Other movements	–	–	–	–
Balance at 31 December	104,935	1,130	–	106,065
Of which:				
For debt securities at amortised cost	19,327	–	–	19,327
For debt securities at FVOCI	85,608	1,130	–	86,738
	104,935	1,130	–	106,065

The impairment allowances of debt securities at FVOCI are not recognised in the consolidated statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Loan commitments and financial guarantee contracts

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	**32,962**	**5,890**	**–**	**38,852**
Transfers:				
Transfer from Stage 1 to Stage 2	**(259)**	**332**	**–**	**73**
Transfer from Stage 2 to Stage 1	**3**	**(414)**	**–**	**(411)**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Transfer from Stage 3	**–**	**–**	**–**	**–**
Changes in PDs/LGDs/EADs	**(2,092)**	**(2,008)**	**–**	**(4,101)**
Changes in model assumption and methodologies	**(4,422)**	**(33)**	**–**	**(4,454)**
Other movements	**(431)**	**(25)**	**–**	**(456)**
Balance at 31 December	**25,761**	**3,742**	**–**	**29,503**

	2022			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	23,426	3,070	–	26,496
Transfers:				
Transfer from Stage 1 to Stage 2	(548)	3,525	–	2,977
Transfer from Stage 2 to Stage 1	273	(1,585)	–	(1,312)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	14,675	880	–	15,555
Changes in model assumption and methodologies	(4,061)	–	–	(4,061)
Other movements	(803)	–	–	(803)
Balance at 31 December	32,962	5,890	–	38,852

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance (Continued)

Other financial assets

	2023			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	44,732	–	–	44,732
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	(5,811)	–	–	(5,811)
Changes in model assumption and methodologies	–	–	–	–
Other movements	612	–	–	612
Balance at 31 December	39,533	–	–	39,533

	2022			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	93,698	–	–	93,698
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Changes in PDs/LGDs/EADs	7,640	–	–	7,640
Changes in model assumption and methodologies	(50,365)	–	–	(50,365)
Other movements	(6,241)	–	–	(6,241)
Balance at 31 December	44,732	–	–	44,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2023				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000 *(Note 1)*	Gross impaired advances HK$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,736,383	33,243	6,411	2,575,257	11,443
– Property investment	4,922,367	16,395	–	3,591,533	2,037
– Financial concerns	13,052,347	2,215	–	333,298	–
– Stockbrokers	1,742,202	603	–	1,226,676	–
– Wholesale and retail trade	5,664,090	15,858	56,908	2,845,889	66,012
– Manufacturing	2,273,619	6,674	–	709,283	–
– Transport and transport equipment	3,790,413	5,527	–	311,718	167
– Recreational activities	–	–	–	–	–
– Information technology	2,033,596	2,328	–	978,848	2,893
– Others *(Note 2)*	12,973,443	60,909	75,661	6,221,212	75,665
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	281,352	144	–	281,354	4,252
– Loans for the purchase of other residential properties	7,679,706	3,729	2,822	7,670,875	34,312
– Credit card advances	61,794	57	578	–	578
– Others *(Note 3)*	4,927,791	7,617	3,264	2,815,755	86,509
	64,139,103	155,299	145,644	29,561,698	283,868
Trade finance	1,755,900	6,293	29,637	255,306	65,622
Loans for use outside Hong Kong	96,270,618	623,258	1,372,207	22,343,128	4,318,056
	162,165,621	784,850	1,547,488	52,160,132	4,667,546

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Loss allowance *(Continued)*

	31 December 2022				
	Gross loans and advances HK$'000	Stage 1 & Stage 2 impairment allowances HK$'000	Stage 3 impairment allowances HK$'000	Loans and advances secured by collateral HK$'000 *(Note 1)*	Gross impaired advances HK$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,262,351	21,174	–	2,627,571	–
– Property investment	6,652,635	10,027	–	6,327,618	15,788
– Financial concerns	13,022,464	1,736	–	811,682	–
– Stockbrokers	1,754,576	246	–	763,605	–
– Wholesale and retail trade	4,472,136	25,030	47,611	2,231,738	90,798
– Manufacturing	2,846,686	9,830	–	808,575	–
– Transport and transport equipment	3,877,866	11,398	6,687	380,768	7,449
– Recreational activities	343	–	–	343	–
– Information technology	341,004	2,401	–	41,000	–
– Others *(Note 2)*	10,465,343	35,777	83,431	4,707,458	622,822
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	329,299	14	–	329,299	863
– Loans for the purchase of other residential properties	7,474,832	336	2,071	7,474,832	26,461
– Credit card advances	58,433	311	400	–	400
– Others *(Note 3)*	5,058,674	3,577	2,599	3,164,282	20,222
	61,616,642	121,857	142,799	29,668,771	784,803
Trade finance	2,675,089	13,894	26,490	184,894	76,428
Loans for use outside Hong Kong	102,412,402	650,820	1,898,787	23,810,851	3,617,333
	166,704,133	786,571	2,068,076	53,664,516	4,478,564

The impairment allowances of trade bills measured at FVOCI under advances and other accounts are not recognised in the statement of financial position as the carrying amount of such item is their fair value. As of 31 December 2023, the impairment allowances of trade bills measured at FVOCI under advances and other accounts amounted to HK$17,468,000 (2022: HK$66,319,000).

Notes:

1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.
2. Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.
3. Major items mainly included loans to professionals and other individuals for various private purposes.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Write-off

The Group may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2023 were HK$3,072,324,000 (2022: HK$125,910,000).

The Group still seeks to recover amounts it is legally owed in full, but which have been fully written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as of 31 December 2023 was HK$777,869,000 (2022: HK$121,417,000).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of individual credit assessment.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year and their respective effect on the Group's financial performance is considered immaterial.

	2023 HK$'000	2022 HK$'000
Advance to customers		
Amortised cost before modification	691,245	1

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's financial assets that best represent the maximum exposure to credit risk is disclosed on the next page.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical locations

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000 *(Note 1)*	Others HK$'000 *(Note 2)*	Total HK$'000
At 31 December 2023				
Balances and placements with banks	**10,056,973**	**45,381,605**	**9,537,573**	**64,976,151**
Derivative financial instruments	**122,011**	**231,955**	**1,051,488**	**1,405,454**
Investment in securities	**14,361,026**	**46,348,923**	**7,760,831**	**68,470,780**
Advances and other accounts	**105,677,242**	**60,429,094**	**1,111,848**	**167,218,184**
	130,217,252	**152,391,577**	**19,461,740**	**302,070,569**
At 31 December 2022				
Balances and placements with banks	4,787,217	31,523,153	3,427,264	39,737,634
Derivative financial instruments	206,363	158,817	1,245,206	1,610,386
Investment in securities	15,979,958	36,164,356	13,394,695	65,539,009
Advances and other accounts	100,366,835	68,454,817	1,545,865	170,367,517
	121,340,373	136,301,143	19,613,030	277,254,546

Notes:

1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.

2. The countries reported in "Others" mainly included Canada, United States and other European countries.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sectors

	Banks and other financial institutions HK$'000	Central governments and central banks HK$'000	Public sector entities HK$'000	Corporate entities HK$'000	Others HK$'000	Total HK$'000
At 31 December 2023						
Balances and placements with banks	59,310,783	5,665,368	–	–	–	64,976,151
Derivative financial instruments	1,145,190	–	–	260,264	–	1,405,454
Investment in securities	31,762,068	26,606,698	–	10,102,014	–	68,470,780
Advances and other accounts	14,967,414	3,075,825	201,786	134,883,714	14,089,445	167,218,184
	107,185,455	35,347,891	201,786	145,245,992	14,089,445	302,070,569
At 31 December 2022						
Balances and placements with banks	35,452,854	4,284,780	–	–	–	39,737,634
Derivative financial instruments	596,962	–	–	1,013,424	–	1,610,386
Investment in securities	11,673,915	26,678,041	–	27,187,053	–	65,539,009
Advances and other accounts	19,666,223	3,605,359	1,201,711	131,140,905	14,753,319	170,367,517
	67,389,954	34,568,180	1,201,711	159,341,382	14,753,319	277,254,546

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Concentration of risks of financial assets with credit risk exposure *(Continued)*

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group by rating agency designation at the end of the reporting period, based on Moody's or equivalent ratings. Financial securities not rated by Moody's, or equivalent, are treated as unrated ones.

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
At 31 December 2023				
Aaa	–	2,005,578	–	2,005,578
Aa1 to Aa3	–	16,602,368	588,036	17,190,404
A1 to A3	3,359,192	34,189,231	2,685,111	40,233,534
Lower than A3	–	6,553,970	495,201	7,049,171
Unrated	34,531	1,955,562	2,000	1,992,093
Total	3,393,723	61,306,709	3,770,348	68,470,780
At 31 December 2022				
Aaa	–	9,144,262	31,118	9,175,380
Aa1 to Aa3	–	8,203,795	168,804	8,372,599
A1 to A3	1,916,006	28,235,205	5,187,284	35,338,495
Lower than A3	–	10,520,139	1,066,140	11,586,279
Unrated	–	1,041,694	24,562	1,066,256
Total	1,916,006	57,145,095	6,477,908	65,539,009

Repossessed collateral

Repossessed assets held by the Group as of 31 December 2023 was HK$38,000,000 (2022: HK$119,700,000).

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from proprietary trading position, market-making and warehousing of customer derived positions. Market risk arising from trading portfolios is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate risk exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as FVOCI and amortised cost, and exposures arising from our daily risk management operations.

From time to time, the Group may use derivatives to mitigate market risk exposure driven by price fluctuation in interest rate and foreign exchange rate affecting trading and non-trading portfolios.

GOVERNANCE COMMITTEE OVERSIGHT

The Board Risk Committee oversees the effective management of market risk. The Board delegates responsibilities to the Risk Management Committee ("RMC") to act as the primary risk governance party for market risk. RMC approves the Market Risk Management Policy to ensure the market risk management framework and controls are effectively implemented to govern the market risk profile of the Bank. The Policy, together with limits and underlying assumptions therein, is subject to be regularly reviewed and approved by the RMC at least once a year.

ROLES AND RESPONSIBILITIES

Market risk management operates under the three lines of defense model. The business constitutes the first line of defense and is responsible for managing risks within approved limits. The risk management function serves as the second line control function, providing independent monitoring and oversight. The audit function acts as the third line of defense assessing and verifying the implementation of controls and measures in accordance with regulatory requirements.

MARKET RISK MANAGEMENT FRAMEWORK

The primary categories of market risk for the group are as follows:

- Interest rate risk: arising from changes in yield curves

- Foreign exchange rate risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options

- Credit spread risk: arising from changes in credit spreads.

Market risk limits are classified into Risk Appetite Statements limits (approved by the Risk Committee), Risk Appetite Controls and the lower operating level limits (approved by the RMC).

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK MANAGEMENT FRAMEWORK *(Continued)*

Risk Appetite Statements limits – VaR

A historical VaR model is used to estimate potential losses on risk positions in the trading portfolio as a result of movements of various risk factors over a specified time horizon (3 years) and to a given level of confidence (99%). The Group has maintains a controllable of market risk exposure for both trading and customer order fulfillment managed by the Treasury and Markets Division within approved limits in day-to-day business. VaR is calculated as at the close of business to reflect the expected movements over one business day and to a confidence level of 99% for day-to-day risk management.

Risk Appetite Controls and Operating Limits

Various lower level limits, such as stop loss, currency position limit, interest rate risk DV01, credit spread risk CS01, greeks and etc, are set to monitor different types nature of risks. These limits are allocated to different business lines. Daily risk monitoring is carried out independently by Market Risk Management Department, ensuring that all dealing activities are conducted in a proper manner and within approved limits.

The Bank adopts a scenario-based approach in stress-testing. Stress tests are performed regularly to assess potential losses under extreme market conditions. The results of stress test are reviewed by the Board, Risk Committee and senior management on a regular basis.

Excess Reporting

A limit excess is denoted as a risk exposure exceed the respective risk limit. Excesses are classified as active, passive and technical. In the case of active and passive excesses, the RMC and the respective head of division are immediately notified, and corrective actions must be taken within the same trading day or the very next trading day. Excess cases will be tabled in the upcoming RMC meetings for discussion and notation. Technical excess, resulting from system and data errors, case will be investigated and reported to the RMC for notation.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Currency risk

The assets and liabilities of the Group are mainly denominated in major currencies, particularly United States dollars ("USD"), Renminbi ("RMB") and Hong Kong dollars ("HKD"). To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VaR limit) are used to serve as a monitoring tool. The Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts are used to manage currency risk associate with foreign currency-denominated assets and liabilities.

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position.

The Group's foreign currency exposures arising from non-structural position which constitute 10% or more of the total net non-structural position in all foreign currencies are as follows:

	2023	
	USD	RMB
	HK$'000	HK$'000
Spot assets	67,077,959	95,913,359
Spot liabilities	(48,159,916)	(94,421,850)
Forward purchases	128,470,822	17,542,632
Forward sales	(140,388,393)	(16,980,559)
Net options position	1,791,541	2,174
Net long position	8,792,013	2,055,756

	2022	
	USD	RMB
	HK$'000	HK$'000
Spot assets	64,062,746	90,415,278
Spot liabilities	(40,727,960)	(86,088,068)
Forward purchases	118,637,177	17,965,699
Forward sales	(141,270,733)	(20,216,583)
Net options position	19,296	–
Net long position	720,526	2,076,326

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Currency risk *(Continued)*

The net options position is calculated in the basis of the delta-weighted position of option contracts.

The Group's foreign currency exposures arising from structural position which constitute 10% or more of the total net structural position in all foreign currencies are as follows:

	2023		2022	
	USD	RMB	USD	RMB
	HK$'000	HK$'000	HK$'000	HK$'000
Net structural position	**459,778**	**4,042,453**	459,778	4,042,453

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favor of the Bank, but also result negative impacts in the event that unexpected or adverse movement arises.

Interest rate risk comprises those originating from both trading and non-trading portfolios, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the management of Group's interest rate risk in banking book ("IRRBB") is governed by the Interest Rate Risk Management Policy which is reviewed and endorsed by the ALCO and approved by the Executive Committee ("EXCO"). The Group also manages its IRRBB within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight.

The Group manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary.

Interest rate risk in banking book

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

The Group manages its IRRBB exposures using economic value as well as earnings based measures.

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for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

Interest rate risk in banking book (Continued)

The economic value is measured from present values of its expected net cash flows of assets, liabilities and off-balance sheet positions held with the Bank, discounted to reflect market rates impact. Thereby the Group measures the change in Economic Value of Equity ("△EVE") as the maximum decrease of the banking book economic value under the six standard scenarios defined by the HKMA's Supervisory Policy Manual.

Earnings-based measures the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten the financial stability by undermining its capital adequacy and by reducing market confidence to the Bank. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

The calculation of the IRRBB gapping is processed through an automatic system on daily basis. Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cash flows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various models, including prepayment model, early-redemption model and behavioural models for non-maturity deposits ("NMDs").

The Group manages the interest rate risk exposure for its NMDs through co-integration Model for deposit volume on core deposit ratio and decay rate approach on behavioural maturity. For the core deposit ratio, the Group followed regulatory guidelines by first estimating stable deposit ratio using the Group's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Group aimed to measure the percentage of stable deposits that would remain with the bank even under significant interest rate changes. In estimating behavioural maturity, the Group followed the run-off approach, which estimates the decay rate of the deposit balance. The behavioural maturity was obtained based on the decay-rate estimation.

In the retail loan and term deposit products, the Group takes into accounts of early prepayment/withdrawal behaviour of its customers. The parameters are based on historical observations and statistical analyses. Furthermore, the Group generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive with forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Group conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

	Up to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
As 31 December 2023						
Assets						
Cash and balances and placements with banks	64,643,128	335,394	–	–	530,109	65,508,631
Derivative financial instruments	634,545	331,987	403,397	35,484	41	1,405,454
Investment in securities	30,966,341	21,790,863	13,878,683	623,900	2,032,109	69,291,896
Advances and other accounts	30,735,396	43,907,638	58,438,405	33,689,864	446,881	167,218,184
Total financial assets	126,979,410	66,365,882	72,720,485	34,349,248	3,009,140	303,424,165
Liabilities						
Deposits and balances of banks	9,092,159	1,825,440	–	–	–	10,917,599
Financial assets sold under repurchase agreements	5,628,377	–	–	–	–	5,628,377
Deposits from customers	200,252,004	26,838,015	12,191,388	–	–	239,281,407
Certificates of deposit	387,415	–	–	–	–	387,415
Derivative financial instruments	491,554	268,174	147,219	12,958	–	919,905
Loan capital	–	–	1,746,559	1,638,194	–	3,384,753
Other financial liabilities	3,725,595	437,430	328,578	40,377	362,695	4,894,675
Total financial liabilities	219,577,104	29,369,059	14,413,744	1,691,529	362,695	265,414,131
Net position - total financial assets and liabilities	(92,597,694)	36,996,823	58,306,741	32,657,719	2,646,445	38,010,034

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for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk (Continued)

	Up to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2022						
Assets						
Cash and balance and placement with banks	39,430,167	308,156	–	–	631,282	40,369,605
Derivative financial instruments	388,598	358,559	739,086	124,102	41	1,610,386
Investment in securities	17,050,337	19,426,480	25,085,350	2,175,284	2,011,362	65,748,813
Advances and other accounts	30,962,063	40,585,762	61,669,864	36,967,531	182,297	170,367,517
Total financial assets	87,831,165	60,678,957	87,494,300	39,266,917	2,824,982	278,096,321
Liabilities						
Deposits and balances with banks	8,395,591	744,546	–	–	–	9,140,137
Financial assets sold under repurchase agreements	4,504,613	–	–	–	–	4,504,613
Deposits from customers	168,053,051	45,982,028	9,453,148	–	–	223,488,227
Derivative financial instruments	702,480	284,287	294,507	19,407	–	1,300,681
Certificates of deposit	–	–	–	–	–	–
Loan capital	–	–	–	1,746,101	–	1,746,101
Other financial liabilities	2,656,111	857,784	182,675	47,582	510,945	4,255,097
Total financial liabilities	184,311,846	47,868,645	9,930,330	1,813,090	510,945	244,434,856
Net position – total financial assets and liabilities	(96,480,681)	12,810,312	77,563,970	37,453,827	2,314,037	33,661,465

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

Interest rate sensitivity

The framework adopted by the Group to measure interest rate risk exposure arising from its banking book positions is consistent with the guidelines set out by the HKMA in its Supervisory Policy Manual ("SPM") on Interest Rate Risk in the Banking Book. Sensitivities of earnings or economic value of equity ("EVE") to interest rate changes by specific size of interest rate parallel shocks and key assumptions as required by SPM are summarised below:

	2023		
	HKD HK$'000	USD HK$'000	CNY HK$'000
Size of interest rate parallel shocks (bps)	**200**	**200**	**250**
Impact on earnings over the next 12 months (parallel up)	**(91,000)**	**(871,000)**	**189,000**
Impact on EVE (parallel up)	**–**	**–**	**1,684,000**

	2022			
	HKD HK$'000	USD HK$'000	CNY HK$'000	EUR HK$'000
Size of interest rate parallel shocks (bps)	200	200	250	200
Impact on earnings over the next 12 months (parallel up)	(871,000)	36,000	117,000	1,000
Impact on EVE (parallel up)	–	–	1,433,000	1,000

Note: Major currencies of the Group for year 2023 are HKD, USD and Chinese Yuan Reminbi ("CNY"), whereas major currencies of the Group for year 2022 are HKD, USD, CNY and Euro ("EUR"). Positive impact means unfavourable to the Group.

The key assumptions are as follows:

– exclusion of spread components in the cash flows used in the computation or discount rate either for △EVE;

– Determination of behavioural modelling in accordance with the Group's business regions;

– Estimation of the prepayment rates of customer loans and the early withdrawal rates for time deposits, the Group adopted the model derived at the account level with using logistic regression with clustered standard errors. The fixed-rate retail loan and retail term deposit portfolios were assumed to follow a run-off mode, with no new originations or auto-renewal in the forecast; and

– Estimation of behavioural maturity of HKD non-maturity deposits ("NMDs"), the Group adopted the run-off approach, which estimates the decay rate of the current and saving deposit respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk *(Continued)*

Interbank Offered Rates ("IBORS") Transition

IBOR transition is the process of preparation for the replacement of the Inter-bank Offered Rate ("IBOR") by alternative risk-free rates. UK Financial Conduct Authority ("FCA") announced that all London Inter-bank Offered Rate settings will either cease to be provided by any administrator or no longer be representative after 30 June 2023. This transition impacts the Group's outstanding financial derivatives and interest rate sensitive assets and liabilities.

A bankwide project workgroup has been established to push a series of system enhancements in order to accommodate the Group with the IBOR transition, including risk management perspective. Market risk limits such as value-at-risk and interest rate sensitivities are still effective and valid for risk management. The Group aims to put system and process changes in place to help achieving the IBOR transition.

The following table illustrates the Group's exposures to the IBOR benchmarks yet to transition to alternative benchmarks. Amounts in respect of financial instruments are that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to be ceased; and
- are recognised on the Group's consolidated statement of financial position.

	2023		2022	
	Non-derivative financial assets - carrying amount	Derivatives nominal amount	Non-derivative financial assets - carrying amount	Derivatives nominal amount
USD 3-month LIBOR	229,966	–	835,872	14,015,202
USD 6-month LIBOR	–	–	–	976,212
	229,966	–	835,872	14,991,414

The above table represents non-derivative financial assets on the basis of their gross carrying amount excluding the allowance for expected credit losses. Majority of these financial instruments have already been negotiated with counterparties and are ready for transition to alternative reference rates ("ARRs"). There were no outstanding non-derivative financial liabilities that are required but have yet to transition to alternative benchmark rates as of 31 December 2023 and 31 December 2022.

Price risk

The Group is exposed to price risk arising from the investments in listed equity securities. Except for those classified as FVPL, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Price risk (Continued)

Price sensitivity

	2023 Change in price		2022 Change in price	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Profit after tax	–	–	–	–
Other comprehensive income	**3,054**	**(3,054)**	3,350	(3,350)

LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to fund increases in assets or meet obligations as they fall due, without incurring unacceptable losses. Liquidity problems can have an adverse impact to the Group's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Group which is otherwise solvent.

Management of liquidity risk

Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Group conducts cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2"). This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

Governance of liquidity risk management

The Group adopts a robust liquidity risk appetite/tolerance including statutory liquidity ratios and key liquidity metrics to reasonably balance the levels of risk and earnings based on the Bank's own strategies, financial strength and market position, to ensure its ability to provide stable, reliable and sufficient sources of funds under normal or stressed scenarios, so as to satisfy liquidity requirements.

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and designated committees and approved by the Board at least annually. Key features of liquidity position and management strategies, risk appetite as well as, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The Board has the ultimate responsibility for liquidity risk management. The EXCO is delegated by the Board to oversee liquidity risk management. The ALCO is further delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through on-going and periodic review of different liquidity metrics, including but not limited to the statutory Liquidity Maintenance Ratio and Core Funding Ratio, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank/intragroup transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Division is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, Liquidity Maintenance Ratio, liquidity and funding statements.

The liquidity risk metrics are closely monitored and regularly reported to the ALCO and other designated committees. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or other designated committees, whilst seeking their advices or instructions on mitigating measures.

With the changing environment, market factors, balance sheet movement and liquidity situation, liquidity risk strategies are discussed in the ALCO meetings and communicated with the business lines, of which the heads are the ALCO members.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. They have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as of the end of the reporting period as stated in their contracts. The maturity dates are based on the agreed repayment dates.

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
Liabilities adjusted with interest payable								
At 31 December 2023								
Deposits and balances with banks	791	5,974,696	3,263,380	1,755,867	–	–	–	10,994,734
Financial assets sold under repurchase agreement	–	2,552,664	2,765,185	337,328	–	–	–	5,655,177
Deposits from customers	71,367,629	56,106,319	74,696,245	26,937,792	12,207,675	–	–	241,315,660
Certificate of deposits	–	338,676	50,000	–	–	–	–	388,676
Loan capital	–	–	–	154,761	619,044	4,027,505	–	4,801,310
Other financial liabilities	1,308,643	798,498	1,827,098	491,759	407,596	48,591	296,321	5,178,506
Total undiscounted financial liabilities	72,677,063	65,770,853	82,601,908	29,677,507	13,234,315	4,076,096	296,321	268,334,063
Liabilities adjusted with interest payable								
At 31 December 2022								
Deposits and balances with banks	208,711	7,335,587	892,450	745,304	–	–	–	9,182,052
Financial assets sold under repurchase agreement	–	2,798,838	1,713,979	–	–	–	–	4,512,817
Deposits from customers	76,293,578	41,106,210	52,302,182	46,205,158	9,455,558	–	–	225,362,686
Certificate of deposits	–	–	–	–	–	–	–	–
Loan capital	–	–	–	85,719	342,877	2,177,969	–	2,606,565
Other financial liabilities	663,528	516,080	1,639,216	924,500	261,499	48,938	225,154	4,278,915
Total undiscounted financial liabilities	77,165,817	51,756,715	56,547,827	47,960,681	10,059,934	2,226,907	225,154	245,943,035

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The following tables detail the Group's maturity analysis of undiscounted cash flows of its derivative financial instruments based on the remaining contracted maturity. They have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that are settled on a net basis and the undiscounted gross inflows (outflows) on those derivatives financial instruments that are settled on a gross basis. When the amount of cash inflows or outflows are not fixed or certain, the amount of expected cash flows has been determined with reference to the prevailing market rates and conditions which exist at the end of the reporting period.

	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2023						
Derivatives settled net						
Interest rate contracts						
– Inflows	**34,172**	**28,099**	**113,795**	**98,357**	**180**	**274,603**
Derivatives settled gross						
Exchange rate contracts						
– Inflows	**127,439,746**	**58,239,726**	**76,827,416**	**7,713,723**	**–**	**270,220,611**
– Outflows	**(127,462,150)**	**(58,088,813)**	**(76,833,752)**	**(7,689,393)**	**–**	**(270,074,108)**
Foreign currency options						
– Inflows	**706**	**4,237**	**7,539**	**2,028**	**–**	**14,510**
– Outflows	**(688)**	**(2,470)**	**(6,358)**	**(1,388)**	**–**	**(10,904)**
	(22,386)	**152,680**	**(5,155)**	**24,970**	**–**	**150,109**
At 31 December 2022						
Derivatives settled net						
Interest rate contracts						
– Inflows	25,186	79,268	102,103	256,521	11,403	474,481
Derivatives settled gross						
Exchange rate contracts						
– Inflows	131,248,061	50,885,664	67,247,215	11,921,056	–	261,301,996
– Outflows	(131,550,223)	(51,292,350)	(66,887,412)	(11,905,849)	–	(261,635,834)
Foreign currency options						
– Inflows	1,219	84	204	–	–	1,507
– Outflows	(537)	(75)	(204)	–	–	(816)
	(301,480)	(406,677)	359,803	15,207	–	(333,147)

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Management of liquidity risk (Continued)

The contractual amounts of the Group's commitments and contingencies unrecorded in the consolidated statement of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 36 to the consolidated financial statements and summarised in the table below:

	As at 31 December 2023 HK$'000	As at 31 December 2022 HK$'000
Direct credit substitutes	**1,385,947**	1,065,398
Trade-related contingencies	**1,445,144**	258,215
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	**10,540,998**	7,699,937
	13,372,089	9,023,550

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on-and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators ("EWIs") of which excesses should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions which give rise to the need of providing liquidity support.

Funding strategies

The Group has a strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements ("repo") and swap markets. The Bank takes into account the maturity profile of funding. For wholesale funding, usually it is below 1 month for interbank borrowing, 3 to 6 months for repo and up to 1 year for certificate of deposits. The funding strategy is formulated by the ALCO and delivered to Treasury Division and different business lines to execute. All of these are parts of the Group's funding strategy. To manage the funding diversification, a set of concentration indicators and EWIs is in place.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to pre-set limits so as to encourage them to source their own funding in the local markets.

Liquidity risk mitigation techniques

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Liquidity risk mitigation techniques (Continued)

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Basic Criteria	At 31 December 2023 HK$'000	At 31 December 2022 HK$'000
Tier 1	Debt Securities issued by sovereigns or central banks with 0% risk-weight	**12,151,282**	16,186,042
Tier 2	Other investment grade debt securities	**16,584,863**	26,753,425

The Group's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. The ALCO reviews the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the Supervisory Policy Manual ("SPM") LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO, the RMC and the EXCO, and approved by the RC.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Stress-testing (Continued)

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioural assumptions are considered to address both funding and market liquidity risks. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress- testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain and Bank Run. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress – testing performed.

The Group's Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would take charge during liquidity crisis to ensure business continuity of the Group.

The Contingency Funding Plan is reviewed and updated at least annually to cope with required changes and improvements.

To ensure the Contingency Funding Plan remains practical and effective, drill test is conducted by the Group on an annual basis.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Analysis of assets and liabilities by remaining maturity

The maturity analysis of assets and liabilities shown on the consolidated statement of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2023								
Assets								
Cash and balances and placements with banks	9,565,199	47,050,589	8,560,466	332,377	–	–	–	65,508,631
Derivative financial instruments	47,076	352,537	234,973	331,987	403,397	35,484	–	1,405,454
Financial assets at fair value through profit or loss	–	1,690,608	–	88,459	1,614,656	–	–	3,393,723
Financial assets measured at FVOCI	–	11,741,148	12,296,678	17,306,661	18,805,769	1,156,453	821,116	62,127,825
Financial assets measured at amotised cost	–	477,693	363,528	1,745,165	1,181,962	2,000	–	3,770,348
Advances and other accounts	5,737,079	8,835,660	16,213,051	44,241,154	58,464,006	33,503,989	223,245	167,218,184
Total financial assets	15,349,354	70,148,235	37,668,696	64,045,803	80,469,790	34,697,926	1,044,361	303,424,165
Non-financial assets	–	–	–	–	–	–	2,619,579	2,619,579
Total assets	15,349,354	70,148,235	37,668,696	64,045,803	80,469,790	34,697,926	3,663,940	306,043,744
Liabilities								
Deposits and balances of banks	791	5,930,990	3,232,378	1,753,440	–	–	–	10,917,599
Financial assets sold under repurchase agreements	–	2,551,682	3,076,695	–	–	–	–	5,628,377
Deposits from customers	71,368,754	55,613,810	73,221,429	26,886,026	12,191,388	–	–	239,281,407
Certificates of deposit	–	336,202	51,213	–	–	–	–	387,415
Derivative financial instruments	–	372,670	118,884	268,174	147,219	12,958	–	919,905
Loan capital	–	–	–	–	–	3,384,753	–	3,384,753
Lease liabilities	–	14,920	26,495	111,081	384,229	22,103	–	558,828
Other financial liabilities	929,597	788,078	1,809,276	421,446	114,275	27,292	245,883	4,335,847
Total financial liabilities	72,299,142	65,608,352	81,536,370	29,440,167	12,837,111	3,447,106	245,883	265,414,131
Non-financial liabilities	–	–	–	–	–	–	356,190	356,190
Total liabilities	72,299,142	65,608,352	81,536,370	29,440,167	12,837,111	3,447,106	602,073	265,770,321
Net position - total financial assets and financial liabilities	(56,949,788)	4,539,883	(43,867,674)	34,605,636	67,632,679	31,250,820	798,478	38,010,034
of which debt securities included in:								
FVOCI	–	11,741,148	12,296,678	17,306,661	18,805,769	1,156,453	–	61,306,709
Amortised cost	–	477,693	363,528	1,745,165	1,181,962	2,000	–	3,770,348
	–	12,218,841	12,660,206	19,051,826	19,987,731	1,158,453	–	65,077,057

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Analysis of assets and liabilities by remaining maturity (Continued)

(restated)	Repayable on demand HK$'000	Repayable within 1 month HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2022								
Assets								
Cash and balances and placements with banks	9,713,680	24,541,806	5,805,963	308,156	–	–	–	40,369,605
Derivative financial instruments	2,051	211,467	175,121	358,559	739,086	124,102	–	1,610,386
Financial assets at fair value through profit or loss	–	–	–	1,127,050	338,531	114,448	335,977	1,916,006
Financial assets measured at FVOCI	–	10,968,737	5,203,436	16,201,332	22,712,754	2,058,836	209,804	57,354,899
Financial assets measured at amortised cost	–	253,194	624,970	3,225,148	2,372,596	2,000	–	6,477,908
Advances and other accounts	5,393,772	8,448,239	17,219,629	40,586,655	61,669,864	36,967,531	81,827	170,367,517
Total financial assets	15,109,503	44,423,443	29,029,119	61,806,900	87,832,831	39,266,917	627,608	278,096,321
Non-financial assets	–	–	–	–	–	–	2,714,536	2,714,536
Total assets	15,109,503	44,423,443	29,029,119	61,806,900	87,832,831	39,266,917	3,342,144	280,810,857
Liabilities								
Deposits and balances with banks	208,711	7,294,435	892,445	744,546	–	–	–	9,140,137
Financial assets sold under repurchase agreements	–	2,798,017	1,706,596	–	–	–	–	4,504,613
Deposits from customers	76,293,578	40,824,094	50,935,379	45,982,028	9,453,148	–	–	223,488,227
Derivative financial instruments	–	506,293	196,187	284,287	294,507	19,407	–	1,300,681
Certificates of deposit	–	–	–	–	–	–	–	–
Loan capital	–	–	–	–	–	1,746,101	–	1,746,101
Lease liabilities	–	14,321	28,842	133,649	192,714	47,581	–	417,107
Other financial liabilities	663,528	500,763	1,608,686	784,294	55,564	1	225,154	3,837,990
Total financial liabilities	77,165,817	51,937,923	55,368,135	47,928,804	9,995,933	1,813,090	225,154	244,434,856
Non-financial liabilities	–	–	–	–	–	–	393,148	393,148
Total liabilities	77,165,817	51,937,923	55,368,135	47,928,804	9,995,933	1,813,090	618,302	244,828,004
Net position – total financial assets and financial liabilities	(62,056,314)	(7,514,480)	(26,339,016)	13,878,096	77,836,898	37,453,827	402,454	33,661,465
Of which debt securities included in:								
FVOCI	–	10,968,737	5,203,436	16,201,332	22,712,754	2,058,836	–	57,145,095
Amortised cost	–	253,194	624,970	3,225,148	2,372,596	2,000	–	6,477,908
	–	11,221,931	5,828,406	19,426,480	25,085,350	2,060,836	–	63,623,003

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Except as detailed in the following tables, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount		Fair value	
	2023 **HK$'000**	**2022** **HK$'000**	**2023** **HK$'000**	**2022** **HK$'000**
Financial assets measured at amortised cost	**3,770,348**	6,477,908	**3,789,412**	6,448,099
Financial liabilities				
Loan capital	**3,384,753**	1,746,101	**3,422,635**	1,746,101

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2023				
Financial assets measured at amortised cost	**3,789,412**	**–**	**–**	**3,789,412**
Loan capital	**–**	**3,422,635**	**–**	**3,422,635**
At 31 December 2022				
Financial assets measured at amortised cost	6,448,099	–	–	6,448,099
Loan capital	–	1,746,101	–	1,746,101

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Please refer to next section for the definition of fair value hierarchy.

The fair values of listed equity securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of unlisted equity securities have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to determine comparable listed companies and to calculate appropriate price multiples. These multiples include i) the average of enterprise value to earnings before interest taxes, depreciation and amortisation ("EV/EBITDA") multiple, ii) the average price to earnings ("P/E") multiple and iii) the average price to book ("P/B") multiple. The multiples are calculated by dividing the enterprise value of the comparable company by the relevant measures. The multiples are then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple are applied to the corresponding measures of the unlisted equity investments to measure their fair values.

The fair values of other securities are measured with reference to quoted market prices of the underlying fund investments, which are observable at the end of the reporting period.

The fair values of debt securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of trade bills classified as FVOCI are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The fair values of foreign currency option contracts are measured by option pricing model with reference to the contractual exercise rates, the quoted forward exchange rates and the market volatilities, which are observable at the end of the reporting period.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. There were no changes in the Group's valuation techniques during the year.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group measures its investment properties, derivative financial instruments and Investment in securities (other than those measured at amortised cost) at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

The following tables give information about the fair value hierarchy of the Group's financial assets and financial liabilities at the end of each reporting periods.

	Fair value hierarchy			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2023				
Financial assets measured at fair value through profit or loss				
Debt securities	**2,072,530**	**–**	**–**	**2,072,530**
Other securities	**–**	**1,321,193**	**–**	**1,321,193**
Financial assets measured at FVOCI				
Equity securities	**30,538**	**–**	**790,578**	**821,116**
Debt securities	**49,531,217**	**11,775,492**	**–**	**61,306,709**
Trade bills	**–**	**2,707,761**	**–**	**2,707,761**
Derivative financial assets not used for hedging	**–**	**1,034,438**	**–**	**1,034,438**
Derivative financial assets used for hedging	**–**	**371,016**	**–**	**371,016**
Derivative financial liabilities not used for hedging	**–**	**(890,002)**	**–**	**(890,002)**
Derivative financial liabilities used for hedging	**–**	**(29,903)**	**–**	**(29,903)**
Net assets attributable to holders of non-controlling interests in consolidated investment funds included in other accounts and accruals	**–**	**(25,124)**	**–**	**(25,124)**
Total	**51,634,285**	**16,264,871**	**790,578**	**68,689,734**
At 31 December 2022				
Financial assets measured at fair value through profit or loss				
Debt securities	114,448	–	–	114,448
Other securities	–	1,801,558	–	1,801,558
Financial assets measured at FVOCI				
Equity securities	33,501	–	176,303	209,804
Debt securities	54,844,093	2,301,002	–	57,145,095
Trade bills	–	7,982,708	–	7,982,708
Derivative financial assets not used for hedging	–	965,892	–	965,892
Derivative financial assets used for hedging	–	644,494	–	644,494
Derivative financial liabilities not used for hedging	–	(1,257,609)	–	(1,257,609)
Derivative financial liabilities used for hedging	–	(43,072)	–	(43,072)
Total	54,992,042	12,394,973	176,303	67,563,318

There were no transfers between Levels 1, 2 and 3 during 2023 and 2022.

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI HK$'000
Balance at 1 January 2022	42,654
Disposal	(277)
Net fair value gain recognised in other comprehensive income	136,473
Exchange difference	(2,547)
Balance at 31 December 2022 and 1 January 2023	176,303
Disposal	–
Net fair value gain recognised in other comprehensive income	**618,277**
Exchange difference	**(4,002)**
Balance at 31 December 2023	**790,578**

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 1% (2022: 0.06%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments.

During the year, management has revisited the unobservable inputs used in determining the fair value of Level 3 financial assets measured at FVOCI. The significant unobservable inputs and their range applied in the fair values measurement of the Group's Level 3 financial assets measured at FVOCI include price/earnings ratios of the appropriate comparables of 6.55x – 37.83x (2022: 3.48x – 14.79x), price/book values ratios of the appropriate comparables of 0.39x – 4.11x (2022: 0.42x – 4.33x), enterprise multiples of appropriate comparables of 3.90x – 6.28x (2022: 4.13x – 7.53x) and liquidity discount of 30%. The fair value is positively correlated to the price/earnings ratios, price/book values ratios and enterprise multiples of appropriate comparables and is negatively correlated to the liquidity discount used in the average of price/earnings ratios, price/book values ratios and enterprise multiples of comparables.

Had the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (2022: 5%), the Group's other comprehensive income would have increased by HK$56,381,000 and decreased by HK$54,751,000 respectively (2022: increased by HK$2,916,000 and decreased by HK$2,964,000, respectively).

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements of financial position; or

- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

The Group entered into ISDA Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the consolidated statement of financial position. However, they create a right of set off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position Financial instruments HK$'000	Cash collateral received HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2023						
Derivative financial instruments	1,395,124	–	1,395,124	(550,462)	(424,517)	420,145
Reverse repos	1,266,256	–	1,266,256	(1,266,256)	–	–
Amounts due from HKSCC and brokerage clients	284,913	(97,438)	187,475	–	–	187,475
Total	2,946,293	(97,438)	2,848,855	(1,816,718)	(424,517)	607,620

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position Financial instruments HK$'000	Cash collateral pledged HK$'000 *(Note)*	Net amounts HK$'000
At 31 December 2023						
Derivative financial instruments	836,412	–	836,412	(550,462)	(189,188)	96,762
Financial assets sold under repurchase agreements	5,291,052	–	5,291,052	(5,291,052)	–	–
Amounts due to HKSCC and brokerage clients	215,835	(97,438)	118,397	–	–	118,397
Total	6,343,299	(97,438)	6,245,861	(5,841,514)	(189,188)	215,159

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Cash collateral received HK$'000 (Note)	Net amounts HK$'000
At 31 December 2022						
Derivative financial instruments	1,567,932	–	1,567,932	(774,341)	(364,451)	429,140
Reverse repos	169,215	–	169,215	(169,215)	–	–
Amounts due from HKSCC and brokerage clients	335,646	(139,902)	195,744	–	–	195,744
Total	2,072,793	(139,902)	1,932,891	(943,556)	(364,451)	624,884

Types of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not offset in the consolidated statement of financial position: Financial instruments HK$'000	Cash collateral pledged HK$'000 (Note)	Net amounts HK$'000
At 31 December 2022						
Derivative financial instruments	1,248,743	–	1,248,743	(774,341)	(228,244)	246,158
Financial assets sold under repurchase agreements	3,659,629	–	3,659,629	(3,659,629)	–	–
Amounts due to HKSCC and brokerage clients	260,044	(139,902)	120,142	–	–	120,142
Total	5,168,416	(139,902)	5,028,514	(4,433,970)	(228,244)	366,300

Note: The cash collateral received/pledged as of 31 December 2023 and 31 December 2022 represent its fair value.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured on the following basis:

- derivative financial instruments – fair value;
- reverse repos – amortised cost;
- financial assets sold under repurchase agreements – amortised cost; and
- amounts due from or due to HKSCC and brokerage clients – amortised cost.

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities.

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

Types of financial assets	2023 HK$'000	2022 HK$'000 (Restated)
Derivative financial instruments as stated above	**1,395,124**	1,567,932
Derivative financial instruments not in scope of offsetting disclosures	**10,330**	42,454
Total derivative financial instruments stated in note 18	**1,405,454**	1,610,386
Reverse repos as stated above	**1,266,256**	169,215
Total reverse repos stated in note 21	**1,266,256**	169,215
Amount due from HKSCC and brokerage clients as stated above	**187,475**	195,744
Other accounts not in scope of offsetting disclosures	**4,019,440**	4,677,942
Total other accounts stated in note 21	**4,206,915**	4,873,686

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8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2023 HK$'000	2022 HK$'000 (Restated)
Derivative financial instruments as stated above	**836,412**	1,248,743
Derivative financial instruments not in scope of offsetting disclosures	**83,493**	51,938
Total derivative financial instruments stated in note 18	**919,905**	1,300,681
Financial assets sold under repurchase agreements as stated above	**5,291,052**	3,659,629
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	**337,325**	844,984
Total financial assets sold under repurchase agreements stated in note 26	**5,628,377**	4,504,613
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	**118,397**	120,142
Other accounts and accruals not in scope of offsetting disclosures	**5,036,294**	4,436,661
Total other accounts and accruals as stated in note 35	**5,154,691**	4,556,803

9. NET INTEREST INCOME

	2023 HK$'000	2022 HK$'000 (Restated)
Interest income		
Balances and placements with banks and reverse repos	**1,771,734**	512,150
Investments in securities	**2,250,140**	1,392,441
Loans and advances	**8,553,504**	5,500,169
	12,575,378	7,404,760
Interest expense		
Deposits and balances with banks	**(312,768)**	(267,673)
Deposits from customers	**(6,997,754)**	(2,998,000)
Financial assets sold under repurchase agreements	**(102,979)**	(53,100)
Certificates of deposit	**(49,540)**	(4,908)
Loan capital	**(104,755)**	(84,300)
Lease liabilities	**(22,815)**	(12,445)
Other (Note)	**(5,459)**	(139)
	(7,596,070)	(3,420,565)
Net interest income	**4,979,308**	3,984,195
Included within interest income		
Interest income on impaired loans and advances	**169,959**	21,477

Included within interest income and interest expense are HK$12,575,378,000 (2022: HK$7,404,760,000) and HK$7,596,070,000 (2022: HK$3,420,565,000) earned and incurred from financial assets and financial liabilities that are not recognised at fair value through profit or loss, respectively.

Included within interest income is HK$2,250,140,000 (2022: HK$1,392,441,000) earned from investments in debt securities that are measured at amortised cost or at fair value through other comprehensive income.

Note: Details of other are as follows:

	2023 HK$'000	2022 HK$'000 (Restated)
Insurance finance expenses for insurance contracts held	**(6,536)**	(432)
Reinsurance finance income for reinsurance contracts held	**1,077**	293
Net insurance financial result	**(5,459)**	(139)

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10. NET FEE AND COMMISSION INCOME

	2023 HK$'000	2022 HK$'000
Fee and commission income		
Securities dealings and futures broking	79,795	106,755
Loans, overdrafts and guarantees	109,448	254,338
Trade finance	7,925	9,688
Credit card services	102,427	89,642
Agency services	73,438	76,326
Others	14,290	23,180
Total fee and commission income	387,323	559,929
Less: fee and commission expenses	(97,447)	(81,964)
Net fee and commission income	289,876	477,965
of which:		
Net fee and commission income, (other than amounts included in determining the effective interest rate), arising from financial assets and financial liabilities that are not at fair value through profit or loss		
– Fee income	122,031	282,933
– Fee expenses	(1,245)	(76,633)
	120,786	206,300

11. NET INCOME FROM TRADING AND INVESTMENTS

	2023 HK$'000	2022 HK$'000
Foreign exchange gains, net	**407,111**	373,288
Net gains on financial instruments at fair value through profit or loss	**103,936**	31,662
Net gains (losses) on fair value hedge:		
– Net gains (losses) on hedged items attributable to the hedged risk	**240,745**	(1,481,739)
– Net (losses) gains on hedging instruments	**(230,422)**	1,479,470
Net gains on disposal of FVOCI debt securities	**30,856**	63,757
	552,226	466,438

"Foreign exchange gains, net" includes net gains and losses from translation of foreign currency monetary assets and liabilities amounting to losses of HK$623,446,000 (2022: gains of HK$348,645,000).

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency ("original currency") into another currency ("swap currency") at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the funds in the original currency and swap currency are recognised as "Foreign exchange gains, net".

Net gains on disposal of the FVOCI debt securities were included in the net income from trading and investments of the Group which form part of the business operation.

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for the year ended 31 December 2023

12. OTHER OPERATING INCOME

	2023 HK$'000	2022 HK$'000 (Restated)
Dividend income		
– Listed investments	2,044	2,018
– Unlisted investments	16,733	4,695
	18,777	6,713
Gross rents from investment properties	7,625	6,047
Less: Outgoings	(430)	(501)
Net rental income	7,195	5,546
Net gain on disposal of financial instruments measured at amortised cost	–	11,317
Safe deposit box rentals	54,816	57,178
Insurance service result *(Note)*	21,493	20,201
Other banking services income	75,970	71,577
Others	3,215	2,541
	181,466	175,073

Note: Details of insurance service result are as follows:

	2023 HK$'000	2022 HK$'000 (Restated)
Insurance revenue	42,020	38,580
Insurance service expenses	(10,352)	(6,835)
Net expenses from reinsurance contracts held	(10,175)	(11,544)
Insurance service result	21,493	20,201

13. OPERATING EXPENSES

	2023 HK$'000	2022 HK$'000 (Restated)
Auditor's remuneration		
– Audit services	**8,093**	6,361
– Non-audit services *(Note 1)*	**344**	6,580
Total auditor's remuneration	**8,437**	12,941
Staff costs (including directors' emoluments)		
– Salaries and other costs	**1,169,713**	1,147,471
– Retirement benefits scheme contributions *(Note 3)*	**74,215**	68,177
– Employment Support Scheme *(Note 2)*	**–**	(4,480)
– Capitalised to intangible assets	**–**	(6)
Total staff costs	**1,243,928**	1,211,162
Depreciation		
– Property and equipment	**85,466**	89,185
– Right-of-use assets	**166,410**	205,141
	251,876	294,326
Amortisation of intangible assets	**57,675**	57,735
Premises and equipment expenses, excluding depreciation		
– Government rent and rates for premises	**7,826**	7,478
– Expenses relating to short-term leases	**49**	1,178
– Expenses relating to leases of low-value assets	**71**	75
– Others	**6,859**	3,910
	14,805	12,641
Other operating expenses	**353,310**	377,460
	353,310	377,460
	1,930,031	1,966,265

Note 1: For the year ended 31 December 2022, amount included non-audit services fees of HK$4,895,000 in relation to the financial years in which the service provider had not yet become the statutory auditor of the Group.

Note 2: In year 2022, the Group successfully applied for funding support from the Employment Support Scheme ("ESS") under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the ESS, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

Note 3: In June 2022, the Government gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022, which will eventually abolish the statutory right of an employer to reduce its long service payment ("LSP") payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF scheme. The Amendment Ordinance has no material impact on the Group's LSP liability and staff cost.

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14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2023 HK$'000	2022 HK$'000
Loans and advances to customers	**2,499,796**	2,029,489
Investments in securities	**(30,966)**	(20,162)
Loan commitments and financial guarantee contracts	**(8,893)**	13,159
Other financial assets	**(5,811)**	(42,725)
	2,454,126	1,979,761

Other financial assets include balances and placements with banks and other receivables.

15. TAXATION

	2023 HK$'000	2022 HK$'000
The tax charge comprises:		
Hong Kong profits tax		
– Current year	**91,311**	23,315
– (Over) under provision in prior years	**(13,971)**	152
Overseas tax		
– Current year	**115,903**	92,824
– (Over) under provision in prior years	**(9,020)**	801
Deferred tax *(Note 32)*		
– Current year	**(58,119)**	4,738
	126,104	121,830

Hong Kong profits tax is calculated at 16.5% (2022: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

15. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the Group's profit before taxation in the consolidated income statement as follows:

	2023 HK$'000	2022 HK$'000 (Restated)
Profit before taxation	**1,567,874**	1,107,727
Tax at the domestic income tax rate of 16.5% (2022: 16.5%)	**258,699**	182,775
Tax effect of share of losses of associates	**7,095**	8,049
Tax effect of expenses not deductible	**53,163**	15,614
Tax effect of income not taxable	**(136,923)**	(80,898)
Adjustment in respect of distribution paid on additional equity instruments	**(50,681)**	(50,713)
(Over)/under provision in prior years	**(22,991)**	953
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	**25,818**	43,655
Utilisation of tax loss previously not recognised	**(8,076)**	–
Others	**–**	2,395
Tax charge for the year	**126,104**	121,830
Effective tax rate	**8.04%**	11.00%

16. DIVIDENDS

	2023 HK$'000	2022 HK$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
Interim	**180,000**	100,000
Final	**130,000**	260,000
	310,000	360,000

Subsequent to the end of the reporting period, final dividend of HK$150,000,000, in respect of the current financial year (2022: HK$130,000,000) has been recommended by the Board.

At the Board meeting on 24 August 2023, the Board declared a total amount of interim dividend of HK$180,000,000 (2022: HK$100,000,000). The interim dividend was paid on 19 December 2023.

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17. CASH AND BALANCES AND PLACEMENTS WITH BANKS

	2023 HK$'000	2022 HK$'000
Cash and balances with central bank and banks	**13,327,885**	11,515,947
Placements with banks		
– With original maturity within three months	**51,006,753**	26,904,417
– With original maturity over three months	**1,203,161**	1,974,908
	52,209,914	28,879,325
Less: Impairment allowances under stage 1	**(29,168)**	(25,667)
	65,508,631	40,369,605

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with the People's Bank of China by the Mainland branches of HK$2,321,896,000 (2022: HK$941,307,000).

Placements with banks as of 31 December 2023 and 31 December 2022 are maturing between one and twelve months.

As of 31 December 2023, the gross carrying amount, including accrued interest, of placements with banks amounted to HK$52,367,045,000 (2022: HK$28,987,578,000).

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2023			2022		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Derivatives held for trading						
– Foreign currency forward contracts and swaps	**275,605,285**	**787,330**	**667,033**	270,669,430	615,376	945,177
– Foreign currency options	**544,981,551**	**47,077**	**39,725**	45,544,557	2,051	3,648
– Interest rate swaps	**100,683,122**	**200,031**	**183,244**	74,430,895	348,465	308,559
– Futures	**–**	**–**	**–**	1,561,940	–	225
Derivatives designated as hedging instruments						
– Interest rate swaps	**12,625,914**	**371,016**	**29,903**	17,689,359	644,494	43,072
		1,405,454	**919,905**		1,610,386	1,300,681

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As of 31 December 2023, all foreign currency forward contracts have settlement dates within 5 years (2022: 3 years) from the end of the reporting period.

The remaining maturity of foreign currency options have settlement dates within 2 years (2022 :1 year) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 8 years (2022: within 8 years).

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2023			2022		
	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000
Exchange rate contracts	820,586,836	161,796	587,691	316,213,987	125,758	558,755
Interest rate contracts	113,309,036	452,764	362,260	93,682,194	328,659	191,946
		614,560	949,951		454,417	750,701

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the consolidated statement of financial position at fair values.

With the implementation of standardised approach for counterparty credit risk under the Basel III framework, the replacement cost of the derivative financial instruments has taken into account the effect of bilateral nettling agreements.

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE HEDGE OF FIXED-RATE BONDS

The Group designates certain interest rate swaps as fair value hedges of FVOCI and amortised cost debt securities with carrying amount of HK$9,598,817,000 (2022: HK$15,213,395,000) and HK$936,996,000 (2022: HK$1,074,123,000) as of 31 December 2023 respectively. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 1 month to 7 years (2022: 1 month to 8 years).

During the year ended 31 December 2023, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK$240,745,000 (2022: losses of HK$1,508,336,000) and losses in fair value of the interest rate swaps of HK$230,422,000 (2022: gains of HK$1,506,459,000) were included in the consolidated income statement.

HEDGE INEFFECTIVENESS

In hedge of interest income of fixed rate bond, ineffectiveness may arise if the timing of cash flows of hedged items and hedging instruments are different, or if the interest rate curves applied to discount the hedged items and hedging instruments are different, or if there are changes in the counterparties' credit risk on the fair values of hedging instruments or hedged items.

19. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2023				
Equity securities:				
Listed in Hong Kong	–	28,406	–	28,406
Listed overseas	–	2,132	–	2,132
Unlisted	–	790,578	–	790,578
	–	821,116	–	821,116
Debt securities:				
Certificates of deposits	–	7,321,343	–	7,321,343
Other debt securities	2,072,530	53,985,366	3,770,348	59,828,244
	2,072,530	61,306,709	3,770,348	67,149,587
Other securities:				
Unlisted	1,321,193	–	–	1,321,193
	1,321,193	–	–	1,321,193
Total:				
Listed in Hong Kong	–	4,807,949	721,452	5,529,401
Listed overseas	2,072,530	31,440,655	2,309,254	35,822,439
Unlisted	1,321,193	25,879,221	739,642	27,940,056
	3,393,723	62,127,825	3,770,348	69,291,896

As of 31 December 2023, the gross carrying amount, including accrued interest, of investment in securities measured at amortised cost amounted to HK$3,798,095,000 (2022: HK$6,515,659,000).

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19. INVESTMENTS IN SECURITIES *(Continued)*

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2022				
Equity securities:				
Listed in Hong Kong	–	31,652	–	31,652
Listed overseas	–	1,849	–	1,849
Unlisted	–	176,303	–	176,303
	–	209,804	–	209,804
Debt securities:				
Certificates of deposits	–	3,235,814	–	3,235,814
Other debt securities	114,448	53,909,281	6,477,908	60,501,637
	114,448	57,145,095	6,477,908	63,737,451
Other securities:				
Unlisted	1,801,558	–	–	1,801,558
	1,801,558	–	–	1,801,558
Total:				
Listed in Hong Kong	–	16,604,701	3,261,098	19,865,799
Listed overseas	114,448	26,000,104	3,009,199	29,123,751
Unlisted	1,801,558	14,750,094	207,611	16,759,263
	1,916,006	57,354,899	6,477,908	65,748,813

19. INVESTMENTS IN SECURITIES *(Continued)*

INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AT FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities as follows:

	Instruments held as of 31 December 2023		Instruments disposed during the year ended 31 December 2023		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	790,578	16,733	–	–	–
– other	30,538	2,044	–	–	–
	821,116	18,777	–	–	–

	Instruments held as of 31 December 2022		Instruments disposed during the year ended 31 December 2022		
	Fair value HK$'000	Dividend recognised HK$'000	Fair value on date of disposal HK$'000	Cumulative gains on disposal HK$'000	Dividend recognised HK$'000
Type of equity instrument					
– business facilitation	176,303	4,695	1,891	1,614	–
– other	33,501	2,018	–	–	–
	209,804	6,713	1,891	1,614	–

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

20. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets classified as FVOCI and FVPL as of 31 December 2023 and 31 December 2022 that were transferred to an entity with terms to repurchase these debt securities and trade bills at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these financial assets, the full carrying amount of these financial assets continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 26). The transferred financial assets serve as collateral to secure these liabilities. During the covered period, the legal titles of the financial assets are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These financial assets are measured at fair value in the consolidated statement of financial position.

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20. TRANSFER OF FINANCIAL ASSETS *(Continued)*

	2023 HK$'000	2022 HK$'000
Carrying amount of transferred assets measured at FVOCI	**5,405,055**	4,588,922
Carrying amount of transferred assets measured at FVPL	**337,325**	–
Carrying amount of associated liabilities *(Note 26)*	**5,628,377**	4,504,613

21. ADVANCES AND OTHER ACCOUNTS

	2023 HK$'000	2022 HK$'000 (Restated)
Advances to customers	**159,185,531**	158,494,123
Trade bills measured at		
– amortised cost	**272,329**	227,302
– FVOCI	**2,707,761**	7,982,708
	2,980,090	8,210,010
	162,165,621	166,704,133
Interest receivable	**1,926,831**	1,448,916
Impairment allowances		
– Stage 1	**(528,717)**	(509,440)
– Stage 2	**(238,665)**	(210,812)
– Stage 3	**(1,547,488)**	(2,068,076)
	(2,314,870)	(2,788,328)
	161,777,582	165,364,721
Reverse repos *(Note 1)*	**1,266,256**	169,215
Other accounts		
– Deposit placed as mandatory reserve fund *(Note 2)*	**3,075,825**	3,820,722
– Initial and variation margin *(Note 3)*	**564,246**	535,343
– Others *(Note 4)*	**566,844**	517,621
	4,206,915	4,873,686
	167,250,753	170,407,622

Note 1: Details of collateral received and fair value of collateral accepted as securities for assets are set out in Note 7 to the consolidated financial statements.

Note 2: Balance mainly represented mandatory reserve deposits placed by Mainland Branches with the People's Bank of China which is not available for the Group's daily operation.

Note 3: Balance mainly represented deposits placed in banks as initial and variation margin for certain interest margin, foreign currency forward contracts and repurchase agreements.

Note 4: As of 31 December 2023, balance included reinsurance contract assets of HK$9,078,000 (2022: HK$14,357,000).

As of 31 December 2023, the gross carrying amount, including accrued interest, of advances to customers amounted to HK$162,698,089,000 (2022: HK$167,116,122,000).

21. ADVANCES AND OTHER ACCOUNTS *(Continued)*

Details of the impaired loans are as follows:

	2023 HK$'000	2022 HK$'000
Gross impaired loans	**4,667,546**	4,478,564
Less: Impairment allowances	**(1,547,488)**	(2,068,076)
Net impaired loans	**3,120,058**	2,410,488
Gross impaired loans as a percentage of gross advances to customers	**2.88%**	2.69%
Market value of collateral pledged	**985,443**	918,662

Details of the non-performing loans are as follows:

	2023 HK$'000	2022 HK$'000
Gross non-performing loans *(Note)*	**4,567,596**	4,450,711
Less: Impairment allowances	**(1,547,488)**	(2,068,076)
Net non-performing loans	**3,020,108**	2,382,635
Gross non-performing loans as a percentage of gross advances to customers	**2.82%**	2.67%
Market value of collateral pledged	**715,571**	855,849

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's loan classification.

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22. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held by the Group	Principal activities and place of operation
Card Alliance Company Limited	Hong Kong, limited liability company	HK$18,000,000	100%	Credit card management in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK$5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK$25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Insurance Brokers Limited	Hong Kong, limited liability company	HK$4,000,000	100%	Insurance broking in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK$85,000,000	100%	Insurance underwriting in Hong Kong
Chong Hing (Management) Limited	Hong Kong, limited liability company	HK$100,000	100%	Provision of management services in Hong Kong
Chong Hing (Nominees) Limited	Hong Kong,limited liability company	HK$100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK$10,000,000	100%	Stockbroking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK$16,550,000	100%	Property investment in Mainland China
Hero Marker Limited	Hong Kong, limited liability company	HK$100,000	100%	Property investment in Hong Kong
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK$4,100,000	100%	Property investment in Hong Kong

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. In the opinion of the directors, listing details of other subsidiaries would result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES

	2023 HK$'000	2022 HK$'000 (Restated)
Share of post-acquisition profits and other comprehensive income net of dividends received	**372,868**	437,689

The directors consider the Group has significant influence over these entities.

As of 31 December 2023 and 31 December 2022, the Group had interests in the following associates:

	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting

The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of six to one out of eight directors of these companies.

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2023 HK$'000	2022 HK$'000 (Restated)
Other comprehensive income	–	1,102
Loss after tax	**(43,003)**	(48,781)
Total comprehensive income	**(43,003)**	(47,679)

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited ("HKLI") which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

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24. INVESTMENT PROPERTIES

	2023 HK$'000	2022 HK$'000
At 1 January	**319,764**	325,938
Net loss on fair value recognised in the profit or loss	**(5,570)**	(610)
Exchange adjustments	**(1,758)**	(5,564)
At 31 December	**312,436**	319,764

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 31 December 2023 and 31 December 2022 by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value of investment properties is determined by adopting the direct comparison approach and income approach. Under direct comparison approach, the fair value is determined by reference to actual sales transactions of comparable properties with similar character and location. Under income approach, the fair value is determined by reference to the value of income, cash flow or cost savings generated by the assets.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties are classified as Level 3 under fair value hierarchy as of 31 December 2023 and 31 December 2022. There were no transfers into or out of Level 3 during the years ended 31 December 2023 and 2022.

The significant unobservable inputs and their range used for the fair value measurement of the Group's investment properties classified as Level 3 are market yield of 2.6% - 2.7% (2022: 2.5%-2.6%) and property unit selling rate of HK$3,329 - HK$49,180 per square feet (2022: HK$2,976 - HK$44,126 per square feet). The higher the property unit selling rate and the lower the market yield, the higher the fair value.

24. INVESTMENT PROPERTIES *(Continued)*

The carrying amount of investment properties of the Group comprises:

	2023 HK$'000	2022 HK$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	**165,710**	169,670
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**86,890**	88,500
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**59,836**	61,594
	312,436	319,764

LEASING ARRANGEMENTS

The Group leases out investment property under operating leases. Lease payments are usually increased after the end of current leases to reflect market rentals.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2023 HK$'000	2022 HK$'000
Within 1 year	**5,053**	6,995
After 1 year but within 2 years	**2,622**	3,947
After 2 years but within 5 years	**2,816**	2,781
Over 5 years	**633**	633
	11,124	14,356

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25. PROPERTY AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Right-of-use assets HK$'000	Equipment HK$'000	Total HK$'000
COST					
At 1 January 2023	345,020	134,076	946,008	1,003,300	2,428,404
Additions	–	–	300,682	27,143	327,825
Disposals	–	–	(30,926)	(21,150)	(52,076)
Exchange adjustments	–	(936)	(8,245)	(8,032)	(17,213)
At 31 December 2023	345,020	133,140	1,207,519	1,001,261	2,686,940
ACCUMULATED DEPRECIATION					
At 1 January 2023	122,330	46,960	530,417	746,015	1,445,722
Depreciation	7,832	3,430	166,410	74,204	251,876
Eliminated on disposals	–	–	(28,715)	(18,787)	(47,502)
Exchange adjustments	–	(136)	(2,475)	(5,339)	(7,950)
At 31 December 2023	130,162	50,254	665,637	796,093	1,642,146
CARRYING AMOUNTS					
At 31 December 2023	214,858	82,886	541,882	205,168	1,044,794
At 1 January 2023	222,690	87,116	415,591	257,285	982,682

25. PROPERTY AND EQUIPMENT *(Continued)*

	Leasehold land HK$'000	Buildings HK$'000	Right-of-use assets HK$'000	Equipment HK$'000	Total HK$'000
COST					
At 1 January 2022	345,020	113,025	1,000,467	986,002	2,444,514
Additions	–	22,855	129,510	94,908	247,273
Disposals	–	–	(159,038)	(53,789)	(212,827)
Exchange adjustments	–	(1,804)	(24,931)	(23,821)	(50,556)
At 31 December 2022	345,020	134,076	946,008	1,003,300	2,428,404
ACCUMULATED DEPRECIATION					
At 1 January 2022	114,498	44,062	488,702	705,357	1,352,619
Depreciation	7,832	3,164	205,141	78,189	294,326
Eliminated on disposals	–	–	(151,692)	(22,667)	(174,359)
Exchange adjustments	–	(266)	(11,734)	(14,864)	(26,864)
At 31 December 2022	122,330	46,960	530,417	746,015	1,445,722
CARRYING AMOUNTS					
At 31 December 2022	222,690	87,116	415,591	257,285	982,682
At 1 January 2022	230,522	68,963	511,765	280,645	1,091,895

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25. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2023 HK$'000	2022 HK$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	**26,127**	26,410
Held on medium-term lease (10–50 years unexpired)	**188,044**	195,564
Leasehold land outside Hong Kong:		
Held on medium-term lease (10–50 years unexpired)	**687**	716
	214,858	222,690

The carrying amounts of buildings shown above comprise:

	2023 HK$'000	2022 HK$'000
Held in Hong Kong on long-term lease (over 50 years unexpired)	**4,069**	4,263
Held in Hong Kong on medium-term lease (10–50 years unexpired)	**53,885**	56,260
Held outside Hong Kong on medium-term lease (10–50 years unexpired)	**24,932**	26,593
	82,886	87,116

For both years, the Group leases various offices and branches for its operations.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Lease contracts are entered into for fixed term of 2 to 6 years (2022: 2 to 6 years), but may have extension options of 1 to 5 years (2022: 1 to 5 years) for 6 lease contracts (2022: 6). Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

26. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2023 HK$'000	2022 HK$'000
Analysed by collateral type:		
Debt securities and trade bills measured at FVOCI	**5,291,052**	4,504,613
Debt securities measured at FVPL	**337,325**	–
Total (Note 20)	**5,628,377**	4,504,613

As of 31 December 2023, the gross carrying amount, including accrued interest, of financial assets sold under repurchase agreements amounted to HK$5,646,164,000 (2022: HK$4,519,150,000).

27. DEPOSITS FROM CUSTOMERS AND BALANCES WITH BANKS

	2023 HK$'000	2022 HK$'000
Deposits from customers		
– Demand deposits and current accounts	**15,959,805**	16,938,227
– Saving deposits	**46,740,490**	50,899,450
– Time, call and notice deposits	**176,581,112**	155,650,550
	239,281,407	223,488,227
Deposits and balances with banks	**10,917,599**	9,140,137

As of 31 December 2023, the gross carrying amount, including accrued interest, of deposits from customers and deposits and balances with banks amounted to HK$241,279,164,000 and HK$10,967,390,000 respectively (2022: HK$225,326,016,000 and HK$9,170,455,000 respectively).

28. CERTIFICATES OF DEPOSIT

	2023 HK$'000	2022 HK$'000
Certificates of deposit, measured at amortised cost	**387,415**	–

As of 31 December 2023, the gross carrying amount, including accrued interest, of certificates of deposit amounted to HK$387,657,000 (2022: HK$Nil).

29. LOAN CAPITAL

	2023 HK$'000	2022 HK$'000
Subordinated notes, at amortised cost		
US$224 million fixed rate subordinated note due 2032 *(Notes (a) & (c))*	**1,746,559**	1,746,101
Subordinated notes, at amortised cost		
RMB1.5 billion fixed rate subordinated note due 2033 *(Notes (b) & (c))*	**1,638,194**	–
	3,384,753	1,746,101

As of 31 December 2023, the gross carrying amount, including accrued interest, of loan capital amounted to HK$3,421,655,000 (2022: HK$1,782,770,000).

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29. LOAN CAPITAL *(Continued)*

Notes:

(a) This represented the subordinated notes qualifying as Tier 2 capital under Basel III accord with face value of US$224,000,000 issued on 27 July 2022 (the "Existing Notes"). The Existing Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 4.900% per annum, payable semi-annually for the first five years; the interest rate will be reset on 27 July 2027.

(b) This represented the subordinated notes qualifying as Tier 2 capital under Basel III accord with face value of RMB1,500,000,000 issued on 28 September 2023 (the "New Notes"). The New Notes are 10-year non-call 10-year fixed rate notes, with a fixed coupon rate of 4.20% per annum, payable annually.

(c) The subordinated notes issued are not secured by any collateral.

ANALYSIS OF CHANGES IN FINANCING CASH FLOW OF LOAN CAPITAL DURING THE YEAR

	2023 HK$'000	2022 HK$'000
At 1 January	**1,746,101**	3,009,489
Changes from financing cash flows:		
Redemption of loan capital	**–**	(3,004,065)
Net proceeds from issue of loan capital	**1,606,500**	1,758,400
Interest paid on loan capital	**(85,380)**	(81,503)
	3,267,221	1,682,321
Exchange adjustments	**12,777**	6,077
Fair value hedge adjustments	**–**	(26,597)
Other changes		
Interest expense	**104,755**	84,300
Total other changes	**104,755**	84,300
At 31 December	**3,384,753**	1,746,101

30. SHARE CAPITAL

	2023		2022	
	Number of shares	Share capital HK$'000	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	972,862,222	17,030,884	972,862,221	15,280,884
Share issued as a result of capital injection *(Note (a))*	3	3,000,000	1	1,750,000
At 31 December	972,862,225	20,030,884	972,862,222	17,030,884

Note:

(a) The Bank issued 1 ordinary share each on 28 June 2023, 27 September 2023 and 15 December 2023 to the immediate holding company of the Bank at the subscription price of HK$1,000,000,000 each, as a result of capital injection. Such shares are fully paid.

The Bank issued 1 ordinary share on 28 June 2022 to the immediate holding company of the Bank at the subscription price of HK$1,750,000,000, as a result of capital injection. Such share is fully paid.

31. ADDITIONAL EQUITY INSTRUMENTS

	2023 HK$'000	2022 HK$'000
Additional Tier 1 Capital Securities		
US$400 million undated non-cumulative subordinated capital securities *(Note (a))*	3,111,315	3,111,315
US$300 million undated non-cumulative subordinated capital securities *(Note (b))*	2,316,681	2,316,681
	5,427,996	5,427,996

Notes:

(a) On 15 July 2019, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$400 million (equivalent to HK$3,115,315,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.700% coupon until the first call date on 15 July 2024. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.858% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

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31. ADDITIONAL EQUITY INSTRUMENTS *(Continued)*

Notes: (Continued)

(b) On 3 August 2020, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US$300 million (equivalent to HK$2,316,681,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.500% coupon until the first call date on 3 August 2025. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.237% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

32. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2023 HK$'000	2022 HK$'000
Deferred tax assets	**1,714**	15,644
Deferred tax liabilities	**(76,279)**	(77,904)
	(74,565)	(62,260)

32. DEFERRED TAXATION *(Continued)*

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation HK$'000	Impairment allowances HK$'000	Investment properties HK$'000	Revaluation of FVOCI securities HK$'000	Remeasurement of retirement benefits HK$'000	Total HK$'000
At 1 January 2023	**(161,668)**	**104,136**	**(25,201)**	**26,583**	**(6,110)**	**(62,260)**
Credit (charge) to income statement for the year *(Note 15)*	36,373	23,304	(1,558)	–	–	58,119
Charge to other comprehensive income for the year	–	(15,240)	–	(57,082)	(380)	(72,702)
Exchange adjustments	–	–	2,278	–	–	2,278
At 31 December 2023	**(125,295)**	**112,200**	**(24,481)**	**(30,499)**	**(6,490)**	**(74,565)**
At 1 January 2022	(162,315)	127,567	(27,478)	(35,805)	(6,110)	(104,141)
Credit (charge) to income statement for the year *(Note 15)*	647	(5,385)	–	–	–	(4,738)
(Charge) credit to other comprehensive income for the year	–	(18,046)	–	62,388	–	44,342
Exchange adjustments	–	–	2,277	–	–	2,277
At 31 December 2022	(161,668)	104,136	(25,201)	26,583	(6,110)	(62,260)

As at 31 December 2023, the Group has unused tax losses arising in Hong Kong of approximately HK$6,215,000 (2022: HK$21,649,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unused tax losses arising in Macau of HK$70,784,000 (2022: HK$116,867,000), that will expire in one to three years for offsetting against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

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33. SHARE BASED PAYMENT

SHARE OPTION SCHEME

The Bank adopted a share option scheme (the "Scheme") pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees and to replace the share option scheme (the "Expired Scheme") which expired on 24 April 2012. The terms of the Scheme are similar to those of the Expired Scheme. Under the Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as of the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the Scheme since it was adopted.

34. INTANGIBLE ASSETS

	Club Membership HK$'000	Goodwill HK$'000	Software HK$'000	Internally developed software HK$'000	Total HK$'000
COST					
At 1 January 2023	14,090	110,606	14,825	865,157	1,004,678
Addition	–	–	3,189	–	3,189
Exchange adjustment	–	–	(442)	(2,371)	(2,813)
At 31 December 2023	14,090	110,606	17,572	862,786	1,005,054
ACCUMULATED AMORTISATION					
At 1 January 2023	–	–	4,912	114,503	119,415
Amortisation	–	–	1,132	56,543	57,675
Exchange adjustment	–	–	(147)	(537)	(684)
At 31 December 2023	–	–	5,897	170,509	176,406
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2023	–	71,000	–	–	71,000
CARRYING AMOUNTS					
At 31 December 2023	14,090	39,606	11,675	692,277	757,648
At 1 January 2023	14,090	39,606	9,913	750,654	814,263
COST					
At 1 January 2022	14,090	110,606	16,164	871,666	1,012,526
Addition	–	–	–	197	197
Exchange adjustment	–	–	(1,339)	(6,706)	(8,045)
At 31 December 2022	14,090	110,606	14,825	865,157	1,004,678
ACCUMULATED AMORTISATION					
At 1 January 2022	–	–	4,277	59,114	63,391
Amortisation	–	–	1,021	56,714	57,735
Exchange adjustment	–	–	(386)	(1,325)	(1,711)
At 31 December 2022	–	–	4,912	114,503	119,415
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2022	–	71,000	–	–	71,000
CARRYING AMOUNTS					
At 31 December 2022	14,090	39,606	9,913	750,654	814,263
At 1 January 2022	14,090	39,606	11,887	812,552	878,135

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34. INTANGIBLE ASSETS *(Continued)*

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited ("CHI"). The amount of goodwill arising as a result of acquisition was HK$110,606,000.

For the year ended 31 December 2023, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and value in use of the acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. Value in use is derived by discounting the expected future cash flows at 12% discount rate (2022: 12%), with assumptions on an overall growth in gross written premium of 2% per annum during the first 5 years (2022: 2% per annum during the first 5 years) and terminal growth rate on overall net profit of 2% beyond year 6 (2022: 2% beyond year 6).

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2023 (2022: Nil), as the value in use exceeds the carrying amount.

The club membership represents the eligibility rights to certain clubs and have no foreseeable limit to the period over which the Group can use. As a result, the club membership is considered by the management of the Group as having an indefinite useful life. The club membership will not be amortised until its useful life are determined to be finite. Instead, they will be tested for impairment annually. No impairment is considered necessary as of 31 December 2023 and 31 December 2022.

35. OTHER ACCOUNTS AND ACCRUALS

	2023 HK$'000	2022 HK$'000 (Restated)
Accrued interest	**2,667,437**	2,396,219
Lease liabilities *(Note 1)*	**558,828**	417,107
Others *(Note 2)*	**1,928,426**	1,743,477
	5,154,691	4,556,803

Note 1:

TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated statement of cash flows for leases comprises the following which could be presented in operating and financing cash flows:

	2023 HK$'000	2022 HK$'000
Payment of lease liabilities:		
Principal	**158,503**	178,721
Interest	**22,815**	12,445
Expenses relating to short-term leases	**49**	1,178
Expenses relating to leases of low-value assets	**71**	75
	181,438	192,419

35. OTHER ACCOUNTS AND ACCRUALS *(Continued)*

Note 2:

Other accounts and accruals include insurance contract liabilities with details as follows:

	2023 HK$'000	2022 HK$'000 (Restated)
At 1 January	**101,203**	109,891
Benefit paid	**(17,753)**	(12,915)
Claims incurred and movement in liabilities	**(1,260)**	4,227
At 31 December	**82,190**	101,203

36. CONTINGENT LIABILITIES AND COMMITMENTS

	2023 HK$'000	2022 HK$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	**1,385,947**	1,065,398
Transaction-related contingencies	**883,849**	2,545,165
Trade-related contingencies	**1,445,144**	258,215
Forward asset purchases	**12,572**	13,258
Forward forward deposits placed	**780,870**	–
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	**61,089,018**	47,942,372
With an original maturity of one year and under	**506,972**	359,025
With an original maturity of over one year	**10,034,026**	7,340,912
Lease commitments	**164**	210
	76,138,562	59,524,555

The credit risk-weighted amount of contingent liabilities and commitments is HK$6,558,978,000 (2022: HK$5,816,374,000).

The credit risk-weighted amount is calculated based on "standardised approach". The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2022: 0% to 150%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

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for the year ended 31 December 2023

36. CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2023 HK$'000	2022 HK$'000
Within one year	**88**	100
In the second to fifth years, inclusive	**76**	110
	164	210

Operating lease payments represent short-term and low-value lease payable by the Group for certain of its office properties.

Capital commitments outstanding at the end of the reporting period are as follows:

	2023 HK$'000	2022 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	**12,572**	13,258

37. RETIREMENT BENEFITS SCHEME

At the beginning of the reporting period, the Group had two retirement schemes in operation including a defined benefit scheme (the "ORSO Scheme"), which was registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme in defined contribution segment prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the "participating members"). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

37. RETIREMENT BENEFITS SCHEME *(Continued)*

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 60. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The trustees of the ORSO Scheme have resolved to terminate the ORSO Scheme on 20 March 2019. The ORSO Scheme has ceased operations and on the same date transferred all assets to Chong Hing Bank Limited – New Staff Retirement Benefits Scheme (the "New Scheme") on 30 August 2019 with a new trustee appointed. The New Scheme mirrors the benefit provisions of the ORSO Scheme.

The most recent actuarial valuation of the defined benefit segment of the ORSO Scheme was carried out as of 31 December 2023 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method. At the date of the latest formal independent actuarial valuation made on 31 December 2023, the net retirement asset of the defined benefit segment was HK$42,220,000 and included under advances and other accounts in the consolidated statement of financial position.

	2023 HK$'000
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(562)
Interest income on plan assets	2,060
Net interest income	1,498
Amount recognised in other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	2,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

37. RETIREMENT BENEFITS SCHEME *(Continued)*

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2023 HK$'000
Present value of defined benefit obligation	(9,337)
Fair value of plan assets	51,557
	42,220

Changes in the present value of the defined benefit obligation are as follow:

	2023 HK$'000
Opening defined benefit obligation	15,036
Interest cost	562
Actuarial gain	(5,139)
Benefits paid	(1,122)
Closing defined benefit obligation	9,337

Changes in fair value of plan assets are as follow:

	2023 HK$'000
Opening fair value of plan assets	53,451
Interest income	2,060
Return on plan assets	(2,832)
Benefits paid	(1,122)
Closing fair value of plan assets	51,557

37. RETIREMENT BENEFITS SCHEME *(Continued)*

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2023 %
Cash	5
Guaranteed fund	95

The fair value of the plan assets as of 31 December 2023 for each category, are as follow:

	2023 HK$'000
Cash	3,140
Guaranteed fund	59,657
	62,797

The ORSO Scheme's defined benefit segment exposes the Group to the interest rate risk, longevity risk and price risk as of 31 December 2023.

INTEREST RATE RISK

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

PRICE RISK

As stated above, 95% of the assets were invested into guaranteed fund as of 31 December 2023. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

37. RETIREMENT BENEFITS SCHEME *(Continued)*

PRICE RISK *(Continued)*

The significant assumptions used in determining the defined benefit obligations are shown below:

	2023 %
Discount rate (per annum)	**0.8**
Expected rate of pension increase (per annum)	**0.0**

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2023 Change in assumption	
	+0.25% HK$'000	-0.25% HK$'000
Discount rate	**(175)**	**182**

	Age +1 year HK$'000	Age –1 year HK$'000
Pensioner mortality	**(419)**	**419**

As of 31 December 2023, the weighted average duration of the defined benefit obligation is approximately 7.7 years.

The costs for providing benefits to the members of the ORSO Scheme's defined benefit segment are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2023, the Group is not required to contribute to the ORSO Scheme's defined benefit segment with respect to the members of the ORSO Scheme's defined benefit segment according to the results of the last statutory funding valuation of the ORSO Scheme's defined benefit segment as of 31 December 2023. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO Scheme's defined benefit segment in every three years become available.

The Group is obligated to make long service payment to qualifying employees in Hong Kong with a minimum of five years' employment period upon retirement or termination of employment under certain circumstances, in accordance with the Hong Kong Employment Ordinance (the "Employment Ordinance"). Long service payment is calculated based on the last monthly salary of the employee and the number of employees' long service payment provisions under the Employment Ordinance permitting employers to offset employees' long service payment against the accrued benefits attributable to employer's contributions to the MPF Scheme. In 2022, the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022 (the "Amendment Bill") was enacted, such that the Group can no longer use accrued benefits arising from MPF mandatory employer contributions to offset employees' long service payment accrued as from the transition date (i.e., 1 May 2025). The enactment of the Amendment Bill is treated as a plan amendment. Except for the statutory right to offset as described above, the long service payment benefits are unfunded.

38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2023 HK$'000	2022 HK$'000	2023 HK$'000	2022 HK$'000
Ultimate holding company	**14**	16	**15,867**	15,867
Intermediate holding company	**7,919**	99	**25,862**	6,412
Fellow subsidiaries	**39,092**	37,746	**116,443**	102,004
Associates	**29,505**	21,773	**29,231**	26,133
Key management personnel *(Note 1)*	**428**	652	**3,171**	651

During the year 2023, the Group had net trading income with intermediate holding company and fellow subsidiary of HK$3,725,000 (2022: HK$34,474,000).

During the year 2022, the Group disposed loans and advances to a fellow subsidiary at carrying amount of HK$564,760,000.

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2023 HK$'000	2022 HK$'000	2023 HK$'000	2022 HK$'000
Ultimate holding company	**–**	–	**–**	–
Intermediate holding company	**150,000**	150,000	**156,009**	2,538,707
Fellow subsidiaries	**2,717,379**	2,399,597	**8,678,849**	9,670,588
Associates	**–**	–	**69,796**	210,646
Key management personnel *(Note 1)*	**26,587**	43,664	**82,303**	149,729

Note 1: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

38. RELATED PARTY TRANSACTIONS *(Continued)*

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As of 31 December 2023, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK$241,874,000 (2022: HK$233,414,000).

Amounts due from related parties are included under advances and other accounts in the consolidated statement of financial position.

Amounts due to related parties are included under deposits from customers in the consolidated statement of financial position.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of the key management during the year was as follows:

	2023 HK$'000	2022 HK$'000
Short-term benefits	**223,598**	230,118
Post employment benefits	**17,118**	17,739
	240,716	247,857

The remuneration of directors and key management is reviewed by the Nomination and Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2023, the Group accrued a bonus for the Group's senior management and employees. The bonus pool was approved by the Nomination and Remuneration Committee on 18 March 2024. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

39. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and

- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the HKMA on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its 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.

Throughout the years ended 31 December 2023 and 2022, the Bank has complied with the capital requirements imported by the HKMA. Additional information is disclosed in the Bank's Regulatory Disclosure.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

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for the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2023 HK$'000	2022 HK$'000
Assets		
Cash and balances and placements with banks	**65,501,080**	40,362,103
Derivative financial instruments	**1,405,454**	1,610,386
Investments in securities	**69,245,490**	65,698,322
Advances and other accounts	**167,024,988**	170,168,634
Tax recoverables	**93,428**	98,523
Investments in subsidiaries	**254,984**	250,984
Amounts due from subsidiaries	**180,436**	191,561
Interests in associates	**20,000**	20,000
Investment properties	**252,600**	258,170
Property and equipment	**883,012**	812,200
Deferred tax assets	**1,714**	15,644
Intangible assets	**718,042**	774,657
Total assets	**305,581,228**	280,261,184
Liabilities		
Deposits and balances with banks	**10,917,599**	9,140,137
Financial assets sold under repurchase agreements	**5,628,377**	4,504,613
Deposits from customers	**239,392,549**	223,595,017
Amounts due to subsidiaries	**933,769**	837,005
Derivative financial instruments	**919,905**	1,300,681
Other accounts and accruals	**4,898,929**	4,305,360
Current tax liabilities	**19,498**	13,538
Certificates of deposit	**387,415**	–
Loan capital	**3,384,753**	1,746,101
Deferred tax liabilities	**53,793**	55,949
Total liabilities	**266,536,587**	245,498,401
Equity attributable to owners of the Bank		
Share capital	**20,030,884**	17,030,884
Additional equity instruments	**5,427,996**	5,427,996
Reserves *(Note (a))*	**13,585,761**	12,303,903
Total equity	**39,044,641**	34,762,783
Total liabilities and equity	**305,581,228**	280,261,184

Approved and authorised for issue by the Board of Directors on 26 March 2024 and signed on its behalf by:

Li Feng *Chairman*	**Zong Jianxin** *Executive Director, Deputy Chairman and Chief Executive*

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a):

	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK							
At 1 January 2023	158,139	197,136	1,378,500	(265,772)	614,000	10,221,900	12,303,903
Profit for the year	–	–	–	–	–	1,428,675	1,428,675
Exchange differences arising on translation	–	–	–	(217,054)	–	–	(217,054)
Remeasurement of retirement benefit	–	–	–	–	–	2,307	2,307
Income tax effect relating to retirement benefit	–	–	–	–	–	(380)	(380)
Net gains on investments in equity instruments measured at FVOCI	615,884	–	–	–	–	–	615,884
Net gains on investments in debt instruments measured at FVOCI	148,083	–	–	–	–	–	148,083
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(30,856)	–	–	–	–	–	(30,856)
Income tax effect relating to disposal of financial assets measured at FVOCI	5,091	–	–	–	–	–	5,091
Income tax effect relating to fair value change of financial assets measured at FVOCI	(52,739)	–	–	–	–	–	(52,739)
Other comprehensive income (net of tax)	685,463	–	–	(217,054)	–	1,927	470,336
Total comprehensive income for the year	685,463	–	–	(217,054)	–	1,430,602	1,899,011
Distribution payment for additional equity instruments	–	–	–	–	–	(307,153)	(307,153)
Interim dividend paid	–	–	–	–	–	(180,000)	(180,000)
Final dividend paid	–	–	–	–	–	(130,000)	(130,000)
Earmark of retained profits as regulatory reserve	–	–	–	–	(76,000)	76,000	–
At 31 December 2023	843,602	197,136	1,378,500	(482,826)	538,000	11,111,349	13,585,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): (Continued)

	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE BANK							
At 1 January 2022	302,745	197,136	1,378,500	355,529	582,000	9,933,418	12,749,328
Profit for the year	–	–	–	–	–	987,835	987,835
Exchange differences arising on translation	–	–	–	(621,301)	–	–	(621,301)
Net gains on investments in equity instruments measured at FVOCI	128,676	–	–	–	–	–	128,676
Net gains on investments in debt instruments measured at FVOCI	(252,625)	–	–	–	–	–	(252,625)
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(63,757)	–	–	–	–	–	(63,757)
Income tax effect relating to disposal of financial assets measured at FVOCI	10,519	–	–	–	–	–	10,519
Income tax effect relating to fair value change of financial assets measured at FVOCI	32,581	–	–	–	–	–	32,581
Other comprehensive income (net of tax)	(144,606)	–	–	(621,301)	–	–	(765,907)
Total comprehensive income for the year	(144,606)	–	–	(621,301)	–	987,835	221,928
Distribution payment for additional equity instruments	–	–	–	–	–	(307,353)	(307,353)
Interim dividend paid	–	–	–	–	–	(100,000)	(100,000)
Final dividend paid	–	–	–	–	–	(260,000)	(260,000)
Earmark of retained profits as regulatory reserve	–	–	–	–	32,000	(32,000)	–
At 31 December 2022	158,139	197,136	1,378,500	(265,772)	614,000	10,221,900	12,303,903

40. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): (Continued)

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of FVOCI investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI debt securities are disposed of.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner – occupied properties to investment properties.

Exchange differences relating to the translation of the net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

41. BENEFITS AND INTERESTS OF DIRECTORS

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G))

(A) Directors' emoluments

The emoluments of the Directors of the Bank were as follows:

	2023 HK$'000	2022 HK$'000
Directors' fee	**4,748**	4,800
Salaries, bonuses, allowances and benefits in kind	**18,406**	18,273
Retirement benefits scheme contributions	**1,453**	1,401
	24,607	24,474

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

41. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G)) *(Continued)*

(B) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding		Maximum aggregate balance of relevant loans
	at January 1	at December 31	during the year
	HK$'000	HK$'000	HK$'000
2023	**50**	**2,287**	**3,829**
2022	1,887	50	3,610

As of 31 December 2023, the loans bear interest at rates ranging from 0% to prime rate plus 10% (2022: 0% to prime rate plus 10%). As of 31 December 2023, loans to officers amounted to HK$1,900,000 were unsecured (2022: no loans to officers were secured).

42. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As of 31 December 2023 and 31 December 2022, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was Guangzhou Yue Xiu Holdings Limited, which is incorporated in the People's Republic of China.

43. COMPARATIVES

As further explained in note 2 to the consolidated financial statements, due to the adoption of HKFRS 17 during the current year, the accounting treatment and presentation of certain items and balances in the consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

Other than the above, certain comparative figures have been adjusted to conform with the presentation and disclosures in the current year.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2023

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

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined terms of reference. The Board reviews and updates the committees' Terms of Reference on a regular basis

These specialised committees are:

(i) Audit Committee

(ii) Connected Party Transactions Committee

(iii) Executive Committee

(iv) Digitalization Strategy Committee

(v) Nomination and Remuneration Committee

(vi) Risk Committee

The Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

(VII) ALCO

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets liabilities and capital of the Group from the perspective of containing the pertinent capital funding and liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's consolidated statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

(VIII) RMC

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

2. MANAGEMENT OF RISKS

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the Asset and Liability Management Committee (the "ALCO"). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the credit, operational, liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management Committee (the "RMC") policies are monitored by the Finance & Capital Management Division, the Treasury and Markets, the Credit Risk Management Division, the Legal and Compliance Division, the Operational & IT Risk Management Department and the Market Risk Management Department, with the assistance of various qualitative and quantitative analyses. The Board level Risk Committee ("RC") exercises further oversight of the Bank's risk management.

Complementing with the ALCO in its management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

(I) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures. Identification, assessment, mitigation, monitoring and reporting of operational risk are to be done for the Bank, through its operational risk event handling and reporting mechanism.

Executive Directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that the Bank's key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(II) REPUTATION RISK

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation events that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff, and proper and adequate communications and public relations efforts are required to foster the reputation of the Group. A reputation risk management policy guided by the Board has been established to manage including, without limitation, media exposure, handling of customers' and other stakeholders' complaints and suggestions, and to ensure that the Group's business activities, and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2023

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2023 %	2022 %
Total capital ratio	**19.64**	17.59
Tier 1 capital ratio	**17.38**	16.00
Common Equity Tier 1 ("CET 1") capital ratio	**14.87**	13.38

	31 December 2023 %	31 December 2022 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	**2.500**	2.500
Countercyclical capital buffer ratio	**0.610**	0.586
	3.110	3.086

	2023 %	2022 %
Leverage ratio	**11.70**	11.41

	2023 %	2022 %
Average liquidity maintenance ratio for the year	**59.64**	51.61

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS *(Continued)*

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio ("LMR") is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

4. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/regulatory-disclosures/index.shtml) in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

5. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2023

6. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the years ended 31 December 2023 and 2022 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2023		
	Advances overdue for over three months as of 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	**1,808,847**	**1,141,219**	**2,337,892**

	2022		
	Advances overdue for over three months as of 31 December HK$'000	New impairment allowances during the year HK$'000	Advances written-off during the year HK$'000
Loans for use outside Hong Kong	1,791,718	1,462,036	77,020

7. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2023				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	93,608,244	2,649,729	4,664,887	1,398,934	396,080
Mainland China	53,695,416	–	–	41,185	383,723
Macau	4,514,234	–	2,659	107,369	5,047
Others	10,347,727	–	–	–	–
	162,165,621	2,649,729	4,667,546	1,547,488	784,850

	2022				
	Total advances HK$'000	Advances overdue for over three months HK$'000	Impaired advances HK$'000	Stage 3 impairment allowance HK$'000	Stage 1 & stage 2 impairment allowance HK$'000
Hong Kong	100,814,545	2,425,083	4,247,794	1,931,887	373,658
Mainland China	55,873,388	–	–	–	383,313
Macau	5,576,714	152,770	230,770	136,189	9,208
Others	4,439,486	–	–	–	20,392
	166,704,133	2,577,853	4,478,564	2,068,076	786,571

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8. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 31 December 2023				
			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
Offshore centres	**9,769,741**	**6,509**	**5,947,430**	**24,711,922**	**40,435,602**
of which					
– Hong Kong	**5,854,690**	**6,096**	**4,902,476**	**12,328,961**	**23,092,223**
Developing Asia-Pacific	**30,685,710**	**259,935**	**4,606,741**	**11,589,731**	**47,142,117**
of which					
– Mainland China	**17,491,474**	**259,790**	**4,606,741**	**11,587,456**	**33,945,461**
Developed countries	**16,518,785**	**1,984,117**	**953,538**	**969,015**	**20,425,455**

	At 31 December 2022				
			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
Offshore centres	3,183,168	6,035	11,354,769	27,705,545	42,249,517
of which					
– Hong Kong	2,150,557	5,660	9,095,130	11,819,074	23,070,421
Developing Asia-Pacific	12,479,732	18,958	18,191,259	7,185,451	37,875,400
of which					
– Mainland China	8,026,730	18,782	18,191,259	7,036,661	33,273,432
Developed countries	10,074,797	33,937	388,488	8,932,593	19,429,815
of which					
– United States	1,164,210	28,090	–	8,922,454	10,114,754

9. CURRENCY RISK

The Group's foreign currency exposures have been analysed from the perspective of non-structural position and structural position. Details are set out in note 7 to the consolidated financial statements.

10. OVERDUE AND RESCHEDULED ASSETS

	2023		2022	
	Gross amount of advances HK$'000	Percentage to total advances %	Gross amount of advances HK$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	**596,547**	**0.4**	1,732,319	1.0
– 1 year or less but over 6 months	**1,071,341**	**0.7**	754,849	0.5
– Over 1 year	**981,841**	**0.6**	90,685	0.1
Total overdue advances	**2,649,729**	**1.7**	2,577,853	1.6
Rescheduled advances				
– 3 months or less	**50,169**	**0.0**	26,496	0.0
– Over 3 months	**619,206**	**0.4**	94,921	0.1
Total rescheduled advances	**669,375**	**0.4**	121,417	0.1
Impairment allowances under stage 3 made in respect of overdue loans and advances	**520,342**		1,210,231	
Covered portion of overdue loans and advances	**762,595**		712,098	
Uncovered portion of overdue loans and advances	**1,887,134**		1,865,755	
	2,649,729		2,577,853	
Market value of collateral held against covered portion of overdue loans and advances	**963,490**		777,056	

There were no advances to banks and other assets which were overdue for over three months as of 31 December 2023 and 31 December 2022, nor were there any rescheduled advances to banks and other financial institutions.

There are no overdue debt securities and trade bills as of 31 December 2023 and 31 December 2022.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2023

11. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorised by types of counterparties:

	31 December 2023		
	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	**45,049,555**	**1,073,654**	**46,123,209**
2 Local government, local government-owned entities and their subsidiaries and JVs	**18,579,763**	**821,308**	**19,401,071**
3 Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**40,572,211**	**2,539,324**	**43,111,535**
4 Other entities of central government not reported in item 1 above	**5,305,148**	**17,527**	**5,322,675**
5 Other entities of local government not reported in item 2 above	**681,318**	**–**	**681,318**
6 Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**12,001,191**	**553,225**	**12,554,416**
7 Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	**3,306,585**	**118,618**	**3,425,203**
Total	**125,495,771**	**5,123,656**	**130,619,427**
Total assets after provision *(Note)*	**284,978,932**		
On-balance sheet exposures as percentage of total assets *(Note)*	**44.04%**		

11. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

	31 December 2022 On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
Type by counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	46,521,952	1,365,848	47,887,800
2 Local government, local government-owned entities and their subsidiaries and JVs	17,824,980	1,455,950	19,280,930
3 Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	45,097,348	1,376,596	46,473,944
4 Other entities of central government not reported in item 1 above	5,974,977	236,043	6,211,020
5 Other entities of local government not reported in item 2 above	424,492	–	424,492
6 Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,655,249	519,153	13,174,402
7 Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	3,988,411	197,154	4,185,565
Total	132,487,409	5,150,744	137,638,153
Total assets after provision *(Note)*	278,826,204		
On-balance sheet exposures as percentage of total assets *(Note)*	47.52%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub- branches.

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for the year ended 31 December 2023

12. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets 2023 HK$'000	Total assets 2022 HK$'000 (Restated)	Total equity 2023 HK$'000	Total equity 2022 HK$'000 (Restated)
Chong Hing (Nominees) Limited	Provision of nominee services	**100**	100	**100**	100
Chong Hing Securities Limited	Stockbroking	**910,852**	848,463	**755,475**	708,302
Chong Hing Commodities and Futures Limited	Commodities and futures broking	**67,234**	69,450	**65,744**	65,884
Chong Hing Insurance Company Limited	Insurance underwriting	**449,163**	427,896	**354,169**	328,300
Chong Hing Insurance Brokers Limited	Insurance broking	**5,453**	3,031	**4,007**	2,000
Chong Hing (Management) Limited	Provision of management services	**–**	78	**–**	78

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