



2020

Annual Report

Contents

	Page
Corporate Information	2
Report of the Directors	3
Corporate Governance Report	6
Independent Auditor's Report	15
Consolidated Statement of Profit or Loss	18
Consolidated Statement of Comprehensive Income	19
Consolidated Statement of Financial Position	21
Consolidated Statement of Changes in Equity	22
Consolidated Cash Flow Statement	23
Notes to the Consolidated Financial Statements	24
Unaudited Supplementary Financial Information	141
List of Branches	147

Corporate Information

BOARD OF DIRECTORS

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Director

Mr NA Wu Beng (*Chief Executive*)

Non-executive Director

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr OOI Sang Kuang

Mr SOON Tit Koon

Mr TSE Hau Yin Aloysius

AUDIT COMMITTEE

Mr TSE Hau Yin Aloysius

Mr CHIM Wai Kin

Mr SOON Tit Koon

REMUNERATION COMMITTEE

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr TSE Hau Yin Aloysius

NOMINATION COMMITTEE

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr TSE Hau Yin Aloysius

RISK MANAGEMENT COMMITTEE

Mr CHIM Wai Kin

Mr TSE Hau Yin Aloysius

Mr SOON Tit Koon

COMPANY SECRETARY

Mr LEUNG Chiu Wah

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

REGISTERED OFFICE

161 Queen's Road Central, Hong Kong

A SUBSIDIARY OF OVERSEA-CHINESE BANKING CORPORATION LIMITED

Report of the Directors

The Directors of OCBC Wing Hang Bank Limited (the “Bank”) have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2020.

PRINCIPAL PLACE OF BUSINESS

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 161 Queen’s Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 16 and 32 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December, 2020 and the state of affairs of the Group and the Bank as at 31st December, 2020 are set out in the financial statements on pages 18 to 140.

During the financial year ended 31st December, 2020, the Board declared an interim dividend of HK\$900 million (2019: HK\$1.5 billion) to the sole shareholder of the Bank. The Board recommended the payment of a final dividend of HK\$200 million (2019: Nil) which shall be subject to the sole shareholder’s approval at the 2021 annual general meeting.

RESERVES

Profit attributable to shareholder of HK\$2,877 million (2019: HK\$2,483 million) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

TANGIBLE FIXED ASSETS

Details of the movements in tangible fixed assets of the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL

During the year, the Bank did not issue any ordinary shares (2019: nil). Details of the share capital are set out in note 28 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made donations for charitable and community purposes amounting to approximately HK\$0.4 million (2019: HK\$1.0 million).

Report of the Directors

DIRECTORS

The Directors of the Bank during the year and up to the date of this report are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Director

Mr NA Wu Beng (*Chief Executive*)

Non-executive Director

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr OOI Sang Kuang

Mr SOON Tit Koon (*redesignated on 27th April, 2020*)

Mr TSE Hau Yin Aloysius

The List of Directors of the Bank's subsidiaries is published on the website of the Bank (www.ocbcwhhk.com).

In accordance with the Bank's Articles of Association and the Tenure Policy, Mr NA Wu Beng, Mr Samuel N TSIEN, Mr OOI Sang Kuang and Mr CHIM Wai Kin will retire from office at the coming Annual General Meeting ("AGM"). These directors being eligible, have offered themselves for re-election at the AGM. Other remaining Directors of the Bank will continue in office.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the Bank which is not determinable by the Bank (or any of its subsidiaries) within one year without payment of compensation (other than statutory compensation).

Certain directors of the Bank received remuneration from the holding company of the Bank, Oversea-Chinese Banking Corporation Limited ("OCBC") and related corporations as directors or employees of those companies and were entitled to benefits under the OCBC Deferred Share Plan and/or OCBC Employee Share Purchase Plan (the "Share-Based Payment Schemes") administered by OCBC. During the year, Mr NA Wu Beng and Mr Samuel N TSIEN were granted share awards under the Share-Based Payment Schemes for the prior performance year. Details of the Share-Based Payment Schemes are set out in note 35 of the financial statements. Apart from the above, at no time during the year was the Bank, or any of its subsidiaries a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

INDEMNITY OF DIRECTORS

The Bank's Articles of Association provide that the directors and officers are entitled to be indemnified out of the funds of the Bank against certain liabilities incurred by them, to the extent permitted by the Companies Ordinance.

Directors & Officers Liability Insurance has been arranged to indemnify the directors and officers of the Bank and its subsidiaries.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF THE BANK'S SECURITIES

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the Bank's securities during the year.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 35 to the financial statements.

CORPORATE GOVERNANCE

The Bank's corporate governance practices are set out in the Corporate Governance Report.

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

The financial statements for the year ended 31st December, 2020 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

AUDITORS

The financial statements of the Bank for the year have been audited by PricewaterhouseCoopers. A resolution will be submitted at the forthcoming annual general meeting of the Bank to re-appoint PricewaterhouseCoopers as independent auditor of the Bank for the year 2021.

On behalf of the Board

FUNG Yuk Bun Patrick

Chairman

Hong Kong, 19th April, 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Bank has complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions ("CG-1") issued by the Hong Kong Monetary Authority ("HKMA") throughout the year ended 31st December, 2020.

BOARD OF DIRECTORS

Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises seven members, of whom one is Executive Director. Amongst the six Non-executive Directors (including the Chairman), four are independent. The independent element on the Board is strong to facilitate independent judgement. Members of the Board are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Director

Mr NA Wu Beng (*Chief Executive*)

Non-executive Director

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr OOI Sang Kuang

Mr SOON Tit Koon (*redesignated on 27th April, 2020*)

Mr TSE Hau Yin Aloysius

All Directors have no relationship with each other.

Each Director possesses skills and experiences appropriate to the business of the Group. The Bank appointed four Independent Non-executive Directors representing more than one-third of the Board.

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Attendance records of the Directors at meetings of the Board ("BM"), Audit Committee ("ACM"), Risk Management Committee ("RMCM"), Remuneration Committee ("RCM") and Nomination Committee ("NCM") held in 2020 are as follows:

Name of Director	Number of meetings attended/held in 2020				
	BM	ACM	RMCM	RCM	NCM
Dr FUNG Yuk Bun Patrick	4/4	N/A	N/A	N/A	N/A
Mr NA Wu Beng	4/4	N/A	N/A	N/A	N/A
Mr SOON Tit Koon	4/4	4/4	4/4	N/A	N/A
Mr Samuel N TSIEN	4/4	N/A	N/A	1/1	2/2
Mr CHIM Wai Kin	4/4	4/4	4/4	N/A	N/A
Mr OOI Sang Kuang	4/4	N/A	N/A	1/1	2/2
Mr TSE Hau Yin Aloysius	4/4	4/4	4/4	1/1	2/2

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Pursuant to requirements under CG-1, the Board should provide sufficient time, budget and other resources for developing and updating its members' knowledge as necessary to enable them to perform their roles effectively.

The Bank has in place training and development arrangements for Directors throughout the year.

During the year, all Directors of the Bank received briefings on economic updates, the Group's business, operations, risk management and corporate governance matters as well as rules and regulations applicable to the Group. The Directors also attended seminars on various relevant topics. All Directors have provided the Bank with their training records.

BOARD PERFORMANCE

In order to improve the performance of the Board, the Board conducts formal performance evaluation on an annual basis. Each Director completes an evaluation questionnaire and results of the evaluation are presented to the Board. Based on the results of the evaluation and comments received from individual directors, the Board and senior management will take appropriate follow up actions to further improve the performance of the Board.

Corporate Governance Report

BOARD DIVERSITY POLICY

The Bank has established a Board Diversity Policy (the "Policy"). The Policy sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

The Bank recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee is established with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank's remuneration system, policies, structure and practices. In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Group's business objectives, people strategies, short-term and long-term performance, business and economic conditions, market practices and risk management factors, in order to ensure the remuneration aligns with the overall performance of the Bank, business line and individual employees, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. For top-level business lines, performance criteria and metrics are taken into consideration, including key financial indicators such as pre-tax earnings, loan growth, return on average shareholder's funds and impaired loans ratio. The remuneration policy is applicable to all staff of the Bank and its subsidiaries, i.e. Macau and Mainland China. In addition, it makes recommendations to the Board in respect of the remuneration packages of the Bank's Chief Executive & Executive Director, senior management and key personnel.

The terms of reference require that the Remuneration Committee shall comprise not less than three members and a majority of the committee and the Chairman shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and TSE Hau Yin Aloysius. One Remuneration Committee meeting was held during 2020. The fees for members of Remuneration Committee for the year are as follows:

	HK\$'000
Chairman	50
Member	30
Per meeting	10

Remuneration of Directors, Senior Management and Key Personnel

The Bank's remuneration policy aims to ensure that the level of remuneration is sufficient and market competitive taken into account risk management factors. The remuneration policy was reviewed and approved by the Remuneration Committee in March 2021. The updated remuneration policy reflects the arrangement on regular independent review of remuneration policy, remuneration system and its operations.

Pursuant to Supervisory Policy Manual CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for senior management and key personnel of the Group during the year are as follows:

HK\$'000		Senior Management		Key Personnel	
		2020	2019	2020	2019
Fixed remuneration	Number of beneficiaries	15	17	8	7
	Total fixed remuneration	51,307	49,177	23,518	18,165
	– Cash (Non-deferred)	51,307	49,177	23,518	18,165
	– Share-based payment (Deferred)	—	—	—	—
Variable remuneration	Number of beneficiaries	14	16	6	5
	Total variable remuneration	39,019	42,093	4,110	4,450
	– Cash				
	Non-deferred	23,471	25,408	3,408	3,770
	Deferred	—	—	—	—
	– Share-based payment				
	Non-deferred	—	—	—	—
	Deferred	15,548	16,685	702	680
Total remuneration		90,326	91,270	27,628	22,615

Corporate Governance Report

Aggregate amount of deferred variable remuneration is set out below:

HK\$'000	2020		2019	
	Awarded for performance year 2020	Awarded for prior performance years	Awarded for performance year 2019	Awarded for prior performance years
Senior Management and Key Personnel				
Vested, paid out and lapsed during the year				
– Cash	—	—	—	893
– Share-based payment	—	18,870	—	21,170
Outstanding and unvested at 31st December				
– Cash	—	—	—	—
– Share-based payment	16,250	49,418	17,365	50,923

Note:

- There was no implicit or explicit adjustment of deferred remuneration and retained remuneration on employee exposures in 2019 and 2020.

The share-based payment represented the fair value of deferred shares will be granted to senior management and key personnel in 2021, as deferred variable incentive bonus for 2020. The deferred shares will be issued by the Bank's holding company, OCBC.

Details of Directors' emoluments are set out in note 9 to the financial statements.

Special Payments for the Financial Year

HK\$'000	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of beneficiaries	Total amount	Number of beneficiaries	Total amount	Number of beneficiaries	Total amount
Senior Management						
2020	—	—	1	1,280	—	—
2019	—	—	2	1,415	—	—
Key Personnel						
2020	—	—	1	1,200	—	—
2019	—	—	—	—	—	—

The Bank's remuneration package consists of both fixed and variable remuneration. An appropriate balance between fixed and variable remuneration will reflect the seniority, role and responsibilities of staff members. In general, the proportion of variable remuneration to total remuneration will increase in line with the seniority and responsibilities of staff.

Fixed remuneration includes basic salary, double pay, allowances and pension contributions.

Variable remuneration comprises cash payment and deferral in the form of deferred shares, to align with the time horizon of risk. The Bank adopts a performance driven approach to remuneration. Remuneration is linked to overall performance of the Bank, performance of relevant business units and contribution of individual employees to such performance. Performance is based on pre-determined and assessable performance criteria. Award of variable remuneration depends on fulfilment of such criteria. These criteria include both financial and non-financial factors. Where relevant, financial measurements are risk adjusted as appropriate. In addition, risk and control indicators as well as audit findings and compliance issues are taken into account when assessing performance. Poor performance (financial, non-financial or risk management) will result in a reduction or elimination of variable remuneration.

The performance of personnel in risk control functions is measured independently of the business they oversee. Employees in these functions are assessed based on achievement related to their respective performance measures. Risk control personnel are also compensated independent of the performance of the business areas which they oversee.

For Senior Management, Key Personnel, Material Risk Takers (i.e., whose activities during the course of their employment could have a material impact on the Bank's risk profile and financial soundness), and employees with variable remuneration exceeding thresholds, a substantial proportion of their variable remuneration shall be subject to deferral arrangement in the form of deferred shares in accordance with the Bank Group's policy. All awards of deferred shares are subject to cancellation and clawback if it is determined that they were granted on the basis of materially inaccurate financial statements and/or that the employee has engaged in conduct that results in financial loss, reputational harm, restatement of financial results and/or adverse changes to the Bank's risk profile/rating. For Material Risk Takers, clawback applies to both cash bonus and deferred shares.

Senior Management refers to Chief Executive (include Deputy/Alternate Chief Executive), Heads of Risk Control Functions and other senior executives who may also be defined as Material Risk Takers under the OCBC Bank Group.

Key Personnel are selected managers as defined and reported to Hong Kong Monetary Authority (HKMA) under section 72B of the Banking Ordinance whose action may have a material impact on the risk exposure of the Bank.

Corporate Governance Report

Nomination Committee

The Nomination Committee is established with specific terms of reference and delegated with the duties that include, amongst others, reviewing and making recommendation to the Board on appointment of Directors, Chairman of the Board, membership of each Board Committee, Chief Executive, Deputy Chief Executive, Alternate Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Compliance and other officers as may be delegated by the Board from time to time.

The terms of reference require that the Nomination Committee shall comprise not less than three members and a majority of them and the Chairman of the committee shall be Independent Non-executive Directors. Currently, members of the Nomination Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and TSE Hau Yin Aloysius.

Audit Committee

The Audit Committee is delegated by the Board with written terms of reference which specify its authority and duties. The terms of reference require that the Audit Committee shall have at least three Non-executive Directors, the majority of whom including the Chairman shall be independent. Currently, members of the Audit Committee are Messrs TSE Hau Yin Aloysius (Chairman), CHIM Wai Kin and SOON Tit Koon.

The work of the Audit Committee includes review of the financial reporting process of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the system of internal controls, risk management and regulatory compliance and to ensure that the reported financial information is relevant, adequate and accurate.

The Audit Committee reviews the external auditors' independence, objectivity and effectiveness of the audit process in accordance with applicable standards.

The Audit Committee also oversees the work and findings of the internal auditors and status of implementation by various units of the recommendations of the internal auditors. The Audit Committee shall report to the Board regularly on any significant matters that require Board attention.

The Bank's Whistle Blowing Program provides a channel for employees and external parties to raise concerns relating to suspected fraud, misconduct or any other irregularities within the Bank. The Audit Committee will be updated on a regular basis on cases received (if any) from whistleblower(s) and appropriate action(s) taken. The whistle blower's interest will be safeguarded at all times, including the right to appeal to the Audit Committee if reprisals are taken against him/her.

Risk Management Committee

The Risk Management Committee is established with specific terms of reference. The terms of reference require that the Risk Management Committee shall comprise not less than three members with a majority being Independent Non-executive Directors. Currently, members of the Risk Management Committee are Messrs CHIM Wai Kin (Chairman), TSE Hau Yin Aloysius and SOON Tit Koon.

The Committee's key role is to oversee the risk management function of the Group. Its key functions include review, advise and recommend for the Board's approval the overall risk appetite, risk tolerance and risk management strategy of the Group. In addition, the Committee also oversees culture related matters of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

- review and approve the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Bank's compliance with legal and regulatory requirements; and
- establish, review and approve the code of conduct and compliance policies (if required).

DELEGATION BY THE BOARD

In addition to the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee described above, the Bank has also established other committees, such as the Management Committee, Credit Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information on these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to senior management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

Management Committee

The Management Committee meets regularly to manage the affairs of the Group encompassing all aspects including business, operational, legal, compliance, strategy and planning. The Management Committee comprises the Chief Executive, Deputy Chief Executive, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Information Officer, Chief Financial Officer, Chief Operations Officer, Head of Retail Banking, Head of Wholesale Banking, Head of Treasury and Head of Macau.

Credit Committee

The Credit Committee is appointed by the Risk Management Committee ("RMC") as the principal senior management body that supports and is accountable to the RMC in managing the Group's credit risk. The Committee oversees the execution of the Group's credit risk management, framework and policies, to ensure credit risk taking is aligned with the Group's risk appetite and business strategy. It is also responsible to approve all extensions of loans and credit in excess of the levels delegated to the Credit Approving Officers. The Credit Committee comprises the Chief Executive, Deputy Chief Executive, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Credit Officer, Head of Credit Risk Management (Retail Bank) and Head of Wholesale Banking.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risk, interest rate risk, structural foreign currency risk, funding and liquidity risk management of the Group. It recommends policy and guidelines to the Board for approval. The Asset and Liability Management Committee comprises the Chief Executive, Deputy Chief Executive, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Financial Officer, Head of Retail Banking, Head of Wholesale Banking and Head of Treasury.

Corporate Governance Report

INTERNAL CONTROLS

The Directors are responsible for internal controls of the Bank and its subsidiaries and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place to identify, control and report on major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 34 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review result is reported to the Risk Management Committee and the Board.

Internal audit plays an important role in the Bank's internal control framework. It provides independent assurance on the effectiveness of the Bank's internal control and compliance with policies and standards across all business and operational units. Senior management is required to provide internal audit with evidence to verify that it has acted fully on all the recommendations made by external auditors and regulatory authorities. Internal audit also advises senior management on operational efficiency and risk management issues. The work of the internal audit function focuses on areas of higher risk to the Group as determined by a risk-based audit methodology. The Chief Internal Auditor reports to the Audit Committee. The Chairman of the Audit Committee shall report to the Board regularly on any significant matters that require Board attention.

DIRECTORS' RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in note 5 to the financial statements.

Hong Kong, 19th April, 2021

Independent Auditor's Report



羅兵咸永道

To the Shareholders of OCBC Wing Hang Bank Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of OCBC Wing Hang Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 18 to 140, which comprise:

- the consolidated statement of financial position as at 31st December, 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' report and Corporate Governance Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19th April, 2021

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2020	2019
Interest income calculated using the effective interest method	5(a)	7,318	8,940
Other interest income	5(a)	274	734
Interest expense	5(b)	(2,830)	(4,665)
Net interest income		4,762	5,009
Fees and commission income		1,093	1,078
Fees and commission expense		(122)	(131)
Net fees and commission income	5(c)	971	947
Dividends	5(d)	15	13
Rental income	5(e)	7	9
Other income	5(f)	820	438
Other operating income		1,813	1,407
Operating income		6,575	6,416
Operating expenses	5(g)	(3,033)	(3,260)
Operating profit before expected credit loss		3,542	3,156
Change in expected credit loss and other credit impairment charges	14	(174)	(278)
Operating profit after expected credit loss		3,368	2,878
Share of net gains of associated companies	17	65	55
Profit before taxation		3,433	2,933
Taxation	6(a)	(556)	(450)
Profit for the year attributable to equity shareholder of the Bank	7	2,877	2,483

The notes on pages 24 to 140 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2020	2019
Profit for the year		2,877	2,483
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Deficit on revaluation of bank premises	18	(152)	(6)
– Income tax related to the above	6(d)	(12)	(12)
– Share of (deficit)/surplus on revaluation of bank premises of associated companies	17	(20)	20
		(184)	2
– Equity securities measured at fair value through other comprehensive income			
– Fair value changes		736	811
– Deferred taxes	6(d)	(66)	(51)
		670	760
		486	762
Items that are or may be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		600	(211)
		600	(211)
– Debt securities measured at fair value through other comprehensive income			
– Fair value changes		100	428
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	(86)	(138)
– expected credit loss recognised		7	(14)
– Income tax related to the above	6(d)	18	(47)
– Exchange adjustments		–	–
– Share of fair value changes of financial assets of associated companies	17	12	36
		51	265

Consolidated Statement of Comprehensive Income

	Notes	2020	2019
– Cash flow hedging reserve			
– Fair value changes taken to equity		–	(9)
– Deferred taxes	6(d)	–	1
		–	(8)
– Unappropriated profits			
– Bank premises			
– Deferred taxes	6(d)	16	14
– Investment properties			
– Disposal of investment properties		(18)	–
		649	60
Other comprehensive income for the year, net of tax		1,135	822
Total comprehensive income for the year attributable to equity shareholder of the Bank		4,012	3,305

The notes on pages 24 to 140 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2020	2019
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10	9,460	9,415
Placements with banks, central banks and other financial institutions	11	528	2,639
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	33	6,830	1,135
Trading assets	12	9,704	5,966
Advances to customers and other accounts	13(a)	198,047	195,779
Financial assets measured at fair value through other comprehensive income	15	79,899	74,144
Investments in associated companies	17	624	614
Tangible fixed assets	18		
– Investment properties		312	346
– Other properties, plants and equipment		5,427	5,777
Assets held for sale	19	1	–
Goodwill	20	1,306	1,306
Current tax recoverable	6(c)	14	4
Deferred tax assets	6(d)	19	10
Total assets		312,171	297,135
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	22	10,264	9,024
Amounts due to ultimate holding company and fellow subsidiaries	33	9,740	12,398
Deposits from customers	23	217,414	209,528
Certificates of deposit and fixed rate note issued	24	17,644	14,254
Trading liabilities	25,30	5,895	3,408
Lease liabilities	21	220	231
Current tax payable	6(c)	132	509
Deferred tax liabilities	6(d)	298	254
Other accounts and provisions	26	4,354	4,287
Total liabilities		265,961	253,893
Share capital	28(a)	7,308	7,308
Reserves		35,902	32,934
Perpetual capital securities issued	28(b)	3,000	3,000
Total equity		46,210	43,242
Total equity and liabilities		312,171	297,135

Approved and authorised for issue by the Board of Directors on 19th April, 2021.

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

The notes on pages 24 to 140 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	2020							At 31st December
	At 1st January	Issuance of perpetual capital securities	Transfer to/(from) reserve	Coupon of perpetual capital securities	Dividends paid for the year	Profit for the year	Other comprehensive income for the year	
Share capital	7,308	–	–	–	–	–	–	7,308
Capital reserve	403	–	37	–	–	–	–	440
Statutory reserve	430	–	–	–	–	–	–	430
General reserve	1,539	–	–	–	–	–	600	2,139
Bank premises revaluation reserve	3,856	–	(55)	–	–	–	(184)	3,617
Investment revaluation reserve (recycling)	200	–	–	–	–	–	51	251
Investment revaluation reserve (non-recycling)	1,761	–	–	–	–	–	670	2,431
Cash flow hedging reserve	(3)	–	–	–	–	–	–	(3)
Unappropriated profits	24,748	–	18	(144)	(900)	2,877	(2)	26,597
Perpetual capital securities	3,000	–	–	–	–	–	–	3,000
Total equity	43,242	–	–	(144)	(900)	2,877	1,135	46,210

	2019							At 31st December
	At 1st January	Issuance of perpetual capital securities	Transfer to/(from) reserve	Coupon of perpetual capital securities	Dividends paid for the year	Profit for the year	Other comprehensive income for the year	
Share capital	7,308	–	–	–	–	–	–	7,308
Capital reserve	379	–	24	–	–	–	–	403
Statutory reserve	430	–	–	–	–	–	–	430
General reserve	1,750	–	–	–	–	–	(211)	1,539
Bank premises revaluation reserve	3,908	–	(54)	–	–	–	2	3,856
Investment revaluation reserve (recycling)	(65)	–	–	–	–	–	265	200
Investment revaluation reserve (non-recycling)	1,001	–	–	–	–	–	760	1,761
Cash flow hedging reserve	5	–	–	–	–	–	(8)	(3)
Unappropriated profits	23,801	–	30	(80)	(1,500)	2,483	14	24,748
Perpetual capital securities	1,500	1,500	–	–	–	–	–	3,000
Total equity	40,017	1,500	–	(80)	(1,500)	2,483	822	43,242

The notes on pages 24 to 140 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2020	2019
Net cash inflow/(outflow) from operating activities	31(a)	7,616	(6,233)
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income		(23,625)	(32,916)
Sale and redemption of financial assets measured at fair value through other comprehensive income		20,220	23,058
Dividends received from associated companies		48	47
Purchase of properties and equipment	18	(117)	(166)
Sale of properties and equipment		267	5
Net cash outflow from investing activities		(3,207)	(9,972)
Financing activities			
Net proceeds from issue of perpetual capital securities	31(c)	–	1,500
Dividends paid		(900)	(1,500)
Interest paid on fixed rate notes		(96)	(91)
Coupon of perpetual capital securities		(144)	(80)
Payment of lease liabilities		(125)	(115)
Net cash outflow from financing activities		(1,265)	(286)
Increase/(decrease) in cash and cash equivalents		3,144	(16,491)
Cash and cash equivalents at 1st January		12,484	29,240
Effects of foreign exchange rate changes		748	(265)
Cash and cash equivalents at 31st December	31(b)	16,376	12,484
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		9,320	9,222
Placements with banks, central banks and other financial institutions with an original maturity within three months		528	1,199
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates with an original maturity within three months		6,224	480
Treasury bills with an original maturity within three months		304	1,583
		16,376	12,484
Cash flows from operating activities included:			
Interest received		7,715	9,621
Interest paid		3,000	4,794
Dividend received		15	13

The notes on pages 24 to 140 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

(Expressed in millions of Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACTIVITIES

The Bank and its subsidiaries (together referred to as “the Group”) are engaged in commercial banking and related financial services.

2. PRINCIPAL ACCOUNTING POLICIES

(a) *Statement of compliance*

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group’s and the Bank’s accounting policies applied in these consolidated financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

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

The consolidated financial statements for the year ended 31st December, 2020 comprise the Bank and its subsidiaries and the Group’s interest in associated companies. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments measured at fair value through profit or loss (“FVTPL”) and measured at fair value through other comprehensive income (“FVOCI”) (note 2(f));
- investment property, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (note 2(o)(vi));
- other freehold land and buildings, including interests in leasehold land and buildings where the Group is the registered owner of the property interest (note 2(o)(v)); and
- other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(o) and 2(p)).

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements *(Continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-Group balances, transactions and cash flows and any unrealised profits arising from intra-Group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(k)).

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Under the equity method, the investment is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated statement of profit or loss.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value, and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Bank's statement of financial position, its investments in associated companies are stated at cost less impairment losses, if any (note 2(k)).

(e) Goodwill

Goodwill represents the excess of

- (i)** the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii)** the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in the consolidated statement of profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or Group of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. (note 2(k)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets

(i) Classification and subsequent measurement of financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through fair value through other comprehensive income ("FVOCI") or through fair value through profit or loss ("FVTPL")); and
- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

(a) Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy of how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

(i) Classification and subsequent measurement of financial assets *(Continued)*

(a) Business model assessment *(Continued)*

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

(b) Assessment of whether contractual cash flows are solely payments of principal and interest

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, the related financial asset is classified and measured at fair value through profit or loss.

(ii) Financial instruments measured at amortised cost

Financial instrument is subsequently measured at amortised cost if it is held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest. Income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(iii) Debt instruments measured at FVOCI

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified at FVOCI are subject to the expected credit loss requirements in accordance with HKFRS 9. Interest earned whilst holding the financial assets is included in interest income.

At the reporting date, the Group recognises unrealised fair value gains and losses on revaluing these assets in OCI and presents the cumulative gains and losses in fair value reserve within equity, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the consolidated statement of profit or loss. At maturity or upon disposal, the cumulative gain or loss previously recognised in OCI is reclassified from fair value reserve to the consolidated statement of profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

(iv) Debt instruments measured at FVTPL

Debt instruments that do not meet the requirements to be measured at amortised cost or at FVOCI are subsequently measured at FVTPL. At the reporting date, the Group recognises realised and unrealised gains and losses as trading income in the consolidated statement of profit or loss. Interest earned while holding the assets are included in interest income.

(v) Equity instruments

The Group subsequently measures all equity instruments at fair value. Equity instruments held for trading are classified at FVTPL. Equity instruments that are not held for trading may be classified as FVOCI based on an irrevocable election on initial recognition on an investment-by-investment basis.

At the reporting date, realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVTPL are recognised in the consolidated statement of profit or loss. Realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVOCI are recognised in other comprehensive income and are never reclassified to the consolidated statement of profit or loss.

Dividend earned whilst holding the equity instruments classified at FVTPL is reported as dividend income in the consolidated statement of profit or loss. Dividend from equity instruments classified at FVOCI is recognised as dividend income in the consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(vi) Reclassification

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

(vii) Derecognition – 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.

(viii) Derecognition – other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets (Continued)

(viii) Derecognition – other than on a modification *(Continued)*

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.

(g) Financial liabilities

(i) Classification and subsequent measurement of financial liabilities

Classification and subsequent measurement in both the current and prior period, 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;
- financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby 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; and
- financial guarantee contracts and loan commitments

(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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Derivatives and hedging activities

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.

Certain derivatives are embedded in hybrid contracts. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. 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 consolidated statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities, or commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedging

Changes in the fair value of derivatives that are designated and that qualify as fair value hedging instruments are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the carrying value of the asset or liability and is amortised to the consolidated statement of profit or loss as a yield adjustment over the remaining maturity of the asset or liability.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Derivatives and hedging activities (Continued)

(ii) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the consolidated statement of profit or loss.

(iii) Hedges directly affected by interest rate benchmark reform

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from interest rate benchmark reform about the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Repurchase and reverse repurchase transactions

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

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables from the counterparties 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 method.

(k) Credit losses and impairment of assets

Under HKFRS 9, the Group recognises a loss allowance for expected credit loss (ECL) with a forward-looking ECL model.

(i) Scope

Under HKFRS 9, the expected credit loss model is applied to debt financial assets classified at amortised cost or FVOCI, except for equity investments, and certain off-balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(ii) Expected credit loss impairment model

Under HKFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – On initial recognition, expected credit loss will be that resulting from default events that are possible over the next 12 months (12-month ECL).
- Stage 2 – Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that resulting from default events that are possible over the expected life of the asset (Lifetime ECL).
- Stage 3 – When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, the credit loss allowance will be the full lifetime expected credit loss.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(iii) Measurement

ECL are probability-weighted estimates of credit losses. 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.

For financial instruments in-scope for ECL:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The key inputs used in the measurement of ECL are:

- Probability of default (PD) – This is an estimate of the likelihood of default over a given time horizon;
- Exposure at default (EAD) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest as well as expected drawdowns on committed facilities;
- Loss given default (LGD) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. ECL for exposures in Stages 2 and 3 are calculated by multiplying lifetime PD by LGD and EAD.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(iii) Measurement *(Continued)*

Loans and bills receivables that are collectively assessed are grouped on the basis of shared credit risk characteristics such as account loan type, industry, geographical location of the borrower, collateral type and other relevant factors.

All key inputs (PD, LGD and EAD) used to estimate Stage 1 and Stage 2 expected credit loss are modelled based on three macroeconomic scenarios (or changes in macroeconomic variables) that are most closely correlated with expected credit loss in the relevant portfolio.

The three macroeconomic scenarios represent a most likely "Base" outcome, and two other less likely "Upside" and "Downside" scenarios. These scenarios are probability-weighted and underlying key macroeconomic assumptions are based on independent external and in-house views. The assumptions are subject to regular management reviews to reflect current economic situations.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for the lifetime period, reverting to long-run averages generally after 3 to 5 years periods. Depending on their usage in the models, macroeconomic variables are projected at a country or more granular level which differ by portfolio. The primary macroeconomic variables adopted are Gross Domestic Product, Unemployment rate, Property Price Index and Interest rate.

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout Group's expected credit loss calculations.

The Group considers a financial asset to be in default by assessing both quantitative and qualitative criteria such as days past due and the terms of financial covenants. A default occurs when the borrower or bond issuer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or when the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL are the maximum contractual period over which the Group is exposed to credit risk.

Financial assets are written off against their related impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

(iv) Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial recognition.

In accordance with HKFRS 9, financial assets are classified in Stage 2 where there is a significant increase in credit risk since initial recognition, where the expected credit loss will be measured using lifetime ECL.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(iv) Movement between stages *(Continued)*

The Group considers both qualitative and quantitative parameters in the assessment of whether this is a significant increase in credit risk. These include the following:

- (a) The Group has established thresholds for significant increases in credit risk based on a relative change in lifetime PD relative to initial recognition.
- (b) The Group conducts qualitative assessment to ascertain if there has been significant increase in credit risk.
- (c) The Group uses days past due as a further indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under HKFRS 9 will be based on objective evidence of impairment.

The assessments for a significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. A modification of the terms of a financial asset that does not result in derecognition will result in the financial asset being transferred out of Stage 3 if the indicators of it being identified as credit-impaired is no longer met and that the evidence for its transfer out of Stage 3 solely relates to events such as up-to-date and timely payment occurring in the subsequent periods.

If a modified financial asset results in derecognition, the new financial asset will be recognised under Stage 1, unless it is assessed to be credit-impaired at time of the modification.

(l) Revenue recognition

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

(i) Interest income

Effective interest rate

Interest income is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or to the amortised cost of financial liabilities.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Revenue recognition *(Continued)*

(i) Interest income *(Continued)*

Effective interest rate (Continued)

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

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

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 2(k).

(ii) Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Revenue recognition (Continued)

(ii) Fee and commission income *(Continued)*

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of HKFRS 9 and partially in the scope of HKFRS 15. If this is the case, then the Group first applies HKFRS 9 to separate and measure the part of the contract that is in the scope of HKFRS 9 and then applies HKFRS 15 to the residual.

Other fee and commission expenses relating mainly to transaction and service fees which are expensed as the services are received.

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

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

(iv) Rental income from operating lease

Rental income receivable under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

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

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated statement of profit or loss except to the extent that they relate to items recognised in OCI or directly in equity, in which case the relevant amounts of tax are recognised in OCI or directly in equity, respectively.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(o), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

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

- in the case of current tax assets and liabilities, the Bank and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated statement of profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Tangible fixed assets and depreciation

- (i) Bank premises that are held for the Group's administrative use are stated in the consolidated statement of financial position at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Changes arising on the revaluation are generally dealt with in OCI and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the consolidated statement of profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the consolidated statement of profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the consolidated statement of profit or loss.
- (ii) Bank premises that are not held for the Group's administrative use are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. In preparing these consolidated financial statements, advantage has been taken of the transitional provisions set out in paragraph 80AA of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that bank premises that are not held for administrative use have not been revalued to fair value at the reporting date.
- (iii) Gains or losses arising from the retirement or disposal of bank premises are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated statement of profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the consolidated statement of profit or loss.
- (iv) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.
- (v) No amortisation is provided on freehold land. Leasehold land (note 2(p)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.
- (vi) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(p)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the consolidated statement of financial position at their fair values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Leased assets

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

(i) As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily IT infrastructure and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether recognise it on a lease-by-lease basis. The lease payments associated with leases in respect of a low value asset are recognised as an expense on a systematic basis over the lease term.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Where the Group decides to recognise a lease, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost. The interest expense 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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The right-of-use asset is initially recognised at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(o) and 2(k)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(o)(vi); and
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2(o)(v).

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

(ii) As a lessor

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

(1) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(l)(iii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k).

(2) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(o) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(l)(iv).

(q) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(k), expected credit loss for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

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

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued *(Continued)*

The financial guarantees are subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

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

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(r)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(s) Related parties

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

- (1) has control or joint control of the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Related parties *(Continued)*

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

- (1) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
- (3) both entities are joint ventures of the same third party;
- (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (6) the entity is controlled or jointly controlled by a person identified in note 2(s)(i);
- (7) a person identified in note 2(s)(i)(1) 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); or
- (8) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(t) Segment reporting

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

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

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Notes to the Consolidated Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Employee benefits

- (i)** Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii)** Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the consolidated statement of profit or loss when incurred.
- (iii)** The Bank's ultimate holding company, Oversea-Chinese Banking Corporation Limited, granted equity instruments under the OCBC Deferred Share Plan ("DSP"), OCBC Employee Share Purchase Plan ("ESP") and OCBC Share Option Scheme 2001 ("2001 Scheme") to eligible employees of the Group as deferred compensation plans.

The compensation plans are recognised as expense in the consolidated statement of profit or loss based on the fair value of the equity instruments at the date of the grant. The expense is recognised in the consolidated statement of profit or loss over the vesting period of the grant.

At each reporting date, the Group revises its estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the consolidated statement of profit or loss over the remaining vesting period.

On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity instruments that vest. Details of the plans are set out in note 35.

(w) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(x) Assets held for sale

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

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the consolidated financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

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

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 18, 20 and 36 contain information about the assumptions and their risk factors relating to valuation of investment property and bank premises held for administrative use, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

(i) Fair value estimation

Fair value is derived from quoted market prices or valuation techniques which maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. Where unobservable data inputs have a significant impact on the value obtained from the valuation model, such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss" is not recognised immediately in the consolidated statement of profit or loss.

The timing of recognition of the deferred day one profit and loss is determined individually. It is amortised over the life of the transaction, released when the instrument's fair value can be determined using market observable inputs, or when the transaction is derecognised.

(ii) Expected credit losses

The Group has the following types of financial instruments that are subject to the expected credit loss model:

- financial assets measured at amortised cost,
- financial assets measured at FVOCI,
- lease receivable, and
- loan commitment and financial guarantee contract.

Critical accounting judgements in ECL are explained in note 3(b)(i).

(iii) Determining the lease term

As explained in policy note 2(p), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

Notes to the Consolidated Financial Statements

3. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

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

(i) Expected credit losses

In determining whether the credit risk of the Group's financial exposures has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Group's historical credit assessment experience and available forward-looking information. ECL estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default, loss given default and exposure at default. These are parameters derived from internal rating models after adjusting them to be unbiased and forward-looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience.

(ii) Investment property

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties have still been treated as a building held for own use.

(iii) Classification of interests in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment*, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with notes 2(o) and (p). Specifically, registered ownership interests are carried under the revaluation model, while rights to use properties under tenancy agreements are carried at depreciated cost.

In making this judgement, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the Group's exposure to the property market fluctuation.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Critical accounting judgements in applying the Group's accounting policies *(Continued)*

(iv) Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as Hong Kong Interbank Offered Rate (HIBOR) and other Interbank Offered Rates (IBORs) has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes.

To transition existing contracts and agreements that reference IBORs to alternative nearly risk-free rates (RFRs) in the applicable currency, adjustments for term differences and credit differences might need to be applied to RFRs, to enable the benchmark rates to be economically equivalent on transition.

The Treasury Division is managing the Group's IBOR transition plan. The greatest change will be amendments to the contractual terms of the HIBOR-referenced floating-rate loan and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

Relief applied

The Group has applied the following reliefs that were introduced by the amendments made to HKFRS 9 *Financial Instruments*:

- When considering the 'highly probable' requirement, the Group has assumed that the IBOR on which the Group's hedged loan or debt is based does not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the IBORs on which the cash flows of the hedged loan or debt and the interest rate swap that hedges it are based is not altered by IBOR reform.
- For fair value hedges of interest rate risk on fixed rate debt, the Group only assesses whether the designated benchmark is separately identifiable at hedge inception and not revisited on reporting date.

Notes to the Consolidated Financial Statements

4. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA which are effective for the financial year beginning on 1st January, 2020 to these consolidated financial statements for the current accounting period:

- Interest Rate Benchmark Reform: Amendments to HKFRS 9, HKAS 39 and HKFRS 7
- COVID-19-Related Rent Concessions: Amendment to HKFRS 16

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Interest Rate Benchmark Reform: Amendments to HKFRS 9, HKAS 39 and HKFRS 7

The Amendments to HKFRS 9, HKAS 39 and HKFRS 7 modify specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform so that entities applying those hedge accounting requirements assume that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These Amendments replace the need for specific judgements to determine whether certain hedge accounting relationships that hedge the variability of cash flows or interest rate risk exposures for periods after the interest rate benchmarks are expected to be reformed or replaced continue to qualify for hedge accounting.

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the temporary exceptions will cease to apply. As at 31st December, 2020, the Group believes it is too early to reliably estimate when interest rate benchmark uncertainty will be resolved for all benchmarks assumed to be in scope of the amendments and so the temporary exceptions applied to the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

COVID-19-Related Rent Concessions: Amendment to HKFRS 16

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 5(f)). There is no impact on the opening balance of equity at 1st January, 2020.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January 2020, and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Group.

5. OPERATING PROFIT

(a) Interest income

	2020	2019
Interest income calculated using the effective interest method:		
– financial assets not measured at fair value through profit or loss	7,318	8,940
Other interest income:		
– trading assets	274	734
	7,592	9,674
of which:		
– interest income from listed investments	856	893
– interest income from unlisted investments	963	1,342
– interest income from impaired financial assets	23	20

The above interest income from impaired financial assets includes interest income on unwinding of discount on expected credit loss of HK\$11 million (2019: expected credit loss of HK\$15 million) (note 14) for the year ended 31st December, 2020.

(b) Interest expense

	2020	2019
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	2,485	4,027
– trading liabilities	345	638
	2,830	4,665
of which:		
– interest expense for certificates of deposit issued	169	182
– interest expense for fixed rate note issued (note 31(a))	93	93
– interest expense for deposits from customers	1,873	2,994
– interest expense for deposits and balances of banks, central banks and other financial institutions	345	751
– interest expense for lease liabilities (note 31(a))	5	7

Notes to the Consolidated Financial Statements

5. OPERATING PROFIT *(Continued)* (c) *Net fees and commission income*

	2020	2019
Net fees and commission income		
Credit commission and fees	156	214
Credit card related fees	182	202
Trade related fees	69	79
Insurance commission	139	160
Stockbroking fees	145	86
Wealth management fees	53	51
Other fees and commission income	349	286
Less: Fees and commission expenses	(122)	(131)
	971	947
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	248	312
– fees and commission expenses	–	–
	248	312

(d) *Dividends*

	2020	2019
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	15	13
	15	13

5. OPERATING PROFIT *(Continued)*

(e) Rental income

	2020	2019
Rental income from investment properties less direct expenses of HK\$0.3million (2019: HK\$0.3 million)	7	9

(f) Other income

	2020	2019
Foreign exchange*	236	155
Hedging activities		
– Fair value hedges (note 30(d))		
– hedged items	283	279
– hedging instruments	(284)	(276)
Interest rate and other derivatives	76	40
Trading securities	83	59
Others	2	1
Net trading income	396	258
Gains transferred from investment revaluation reserve upon disposal	86	138
Gains on disposal of financial assets measured at fair value through other comprehensive income	126	21
Total gains on disposal of financial assets measured at fair value through other comprehensive income (note 31(a))	212	159
Revaluation of investment properties (note 18 & 31(a))	17	–
Disposal of tangible fixed assets (note 31(a))	170	(2)
Others	25	23
	820	438

* Included the net interest income element of HK\$74 million (2019: net interest expenses for HK\$133 million) on the cross currency funding swap classified as "Other income"

Notes to the Consolidated Financial Statements

5. OPERATING PROFIT *(Continued)*

(g) Operating expenses

	2020	2019
Staff costs (note (i))		
Salaries and other staff costs	1,940	2,086
Retirement benefit costs (note 35(a))	96	95
Share-based payment expenses (note 35(b))	34	35
	2,070	2,216
Premises and equipment expenses, excluding depreciation	301	353
Depreciation (notes 18 & 31(a))		
– owned property, plant and equipment	215	216
– right-of-use assets	121	113
	336	329
Other expenses		
Auditor's remuneration		
Audit services	10	7
Other services	2	2
Others	314	353
	326	362
	3,033	3,260

Note (i): In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the HKSAR 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 grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

6. TAXATION

(a) *Taxation in the consolidated statement of profit or loss represents:*

	2020	2019
Current tax – Provision for Hong Kong profits tax		
Provision for the year	391	415
Under/(over)provision in respect of prior years	6	(29)
	397	386
Current tax – Provision for tax outside Hong Kong		
Provision for the year	139	51
Overprovision in respect of prior years	(3)	(2)
	136	49
Deferred taxation		
Origination and reversal of temporary differences	23	15
	556	450

The provision for Hong Kong profits tax for 2020 is calculated at 16.5% (2019: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the regions in which the relevant units of the Group operate.

(b) *Reconciliation between tax expenses and accounting profit at applicable tax rates:*

	2020	2019
Profit before tax	3,433	2,933
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	591	484
Tax effect of non-deductible expenses	8	14
Tax effect of non-taxable revenue	(58)	(51)
Under/(over)provision in respect of prior years	6	(31)
Others	9	34
Actual tax expense	556	450

Notes to the Consolidated Financial Statements

6. TAXATION *(Continued)*

(c) **Current tax recoverable and payable**

The components of current tax recoverable and payable in the consolidated statement of financial position are as follows:

	2020	2019
Current tax recoverable		
Provision for Hong Kong profits tax	348	–
Provisional profits tax paid	(362)	–
	(14)	–
Provision for tax outside Hong Kong	–	(4)
	(14)	(4)
Current tax payable		
Provision for Hong Kong profits tax	42	421
Provisional profits tax paid	(21)	–
	21	421
Provision for tax outside Hong Kong	111	88
	132	509

All current tax recoverable and payable are expected to be settled within one year.

(d) **Deferred tax assets and liabilities recognised**

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

	2020						
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of financial assets measured at fair value through other comprehensive income	Revaluation of cash flow hedges	Expected credit loss	Others	Total
At 1st January	139	90	170	–	1	(156)	244
Charged/(credited) to consolidated statement of profit or loss	16	–	–	–	(39)	46	23
Credited to unappropriated profits	–	(43)	–	–	–	–	(43)
Charged to reserves	–	12	48	–	–	–	60
Exchange adjustments	–	–	–	–	1	(6)	(5)
At 31st December	155	59	218	–	(37)	(116)	279

Notes to the Consolidated Financial Statements

9. DIRECTORS' EMOLUMENTS

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

	2020	2019
Directors' fee	8	8
Salaries, allowances and benefits in kind*	6	10
Pension contributions	–	–
Performance bonuses	7	9
Share-based payments	6	10
	27	37

* Note: The non-cash benefits to directors mainly include housing allowances.

10. CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
Cash balances	731	1,126
Balances with central banks	7,016	7,050
Balances with banks	1,713	1,239
Expected credit loss (Stage 1) (note 14)	–	–
	9,460	9,415

11. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
Remaining maturity		
– Within 1 month	528	2,639
– Over 1 month but within 1 year	–	–
Expected credit loss (Stage 1) (note 14)	–	–
	528	2,639

12. TRADING ASSETS

	2020	2019
Debt securities:		
Listed in Hong Kong	–	988
Listed outside Hong Kong	3,034	1,195
	3,034	2,183
Unlisted	–	78
Total trading debt securities	3,034	2,261
Positive fair values of derivative financial instruments held for trading (note 30(a)(i))	6,670	3,705
	9,704	5,966
Trading debt securities include:		
Treasury bills	2,294	798
Certificates of deposit held	–	–
Other trading debt securities	740	1,463
	3,034	2,261
Trading securities analysed by counterparty are as follows:		
	2020	2019
Issued by:		
Sovereigns	2,294	798
Banks	740	298
Corporates	–	1,165
	3,034	2,261

Notes to the Consolidated Financial Statements

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) *Advances to customers and other accounts*

	2020	2019
Gross advances to customers	189,447	190,168
Expected credit loss (Stages 1 and 2) for loans and advances (note 14(b))	(425)	(363)
Expected credit loss (Stage 3) for impaired loans and advances (note 14(b))	(134)	(124)
Net advances to customers	188,888	189,681
Gross trade bills	2,750	780
Expected credit loss (Stages 1 and 2) for trade bills (note 14(b))	(6)	(2)
Expected credit loss (Stage 3) for impaired trade bills (note 14(b))	–	–
Net trade bills	2,744	778
Advances to banks	2,335	1,503
Expected credit loss (Stage 1) for advances to banks (note 14(b))	–	–
Net advances to banks	2,335	1,503
Customer liability under acceptances	979	1,188
Interest receivables	1,021	1,144
Positive fair values of derivative financial instruments held for hedging (note 30(a)(ii))	7	3
Other accounts	2,073	1,482
	198,047	195,779

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any expected credit loss.

	2020			2019		
	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	5,874	67.1	–	5,878	68.3	–
– Property investment	32,404	90.1	25	30,067	95.3	19
– Financial concerns	10,487	18.8	1	10,244	13.7	–
– Stockbrokers	4,211	23.1	–	3,233	12.7	–
– Wholesale and retail trade	4,326	69.5	74	8,121	39.5	73
– Manufacturing	3,111	71.7	16	2,973	65.8	25
– Transport and transport equipment	6,263	64.3	9	6,560	88.6	20
– Information technology	44	59.9	–	54	60.3	–
– Share financing	128	93.7	–	187	94.8	–
– Recreational activities	10	27.3	–	10	–	–
– Others	8,432	77.1	13	5,076	64.8	3
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	944	100.0	–	1,127	100.0	–
– Advances for the purchase of other residential properties	36,407	100.0	128	38,124	100.0	90
– Credit card advances	163	0.0	1	288	0.5	2
– Others	8,444	67.9	25	11,703	65.4	23
	121,248	78.4	292	123,645	77.5	255
Trade finance	3,728	44.0	170	3,992	50.2	98
Advances for use outside Hong Kong						
– Mainland China	35,252	55.0	338	34,621	52.0	374
– Macau	20,591	88.1	26	21,307	90.7	17
– Others	8,628	100.0	7	6,603	93.8	1
	64,471	71.6	371	62,531	69.6	392
	189,447	75.4	833	190,168	74.3	745

Notes to the Consolidated Financial Statements

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and expected credit loss (Stage 3) are as follows:

	2020	2019
Gross impaired advances to customers	833	745
Gross impaired advances to customers as a percentage of total advances to customers	0.44%	0.39%
Market value of collateral held with respect to impaired advances to customers	658	601
Expected credit loss (Stage 3)	134	124

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed expected credit loss (Stage 3) were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor expected credit loss (Stage 3) made on advances to banks as at 31st December, 2020 and 31st December, 2019.

(d) Net investments in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	2020		2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	3,178	3,445	3,992	4,381
After 1 year but within 5 years	3,948	4,068	5,493	5,819
After 5 years	3	3	4	4
	7,129	7,516	9,489	10,204
Unearned future income on finance lease	–	(387)	–	(715)
	7,129	7,129	9,489	9,489
Expected credit loss (Stage 3)	(12)		(17)	
Expected credit loss (Stages 1 and 2)	(24)		(20)	
Net investment in finance leases and hire purchase contracts	7,093		9,452	

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(e) Repossessed assets

During the year ended 31st December, 2020, the Group has taken possession of collateral it holds as security as follows:

Nature

	2020	2019
Commercial properties	–	68
Industrial properties	–	4
Residential properties	144	100
Vehicles	20	23
Others	1	1
	165	196

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2020, repossessed assets obtained as securities for impaired advances to customers totalled HK\$103 million (2019: HK\$28 million) for the Group.

Notes to the Consolidated Financial Statements

14. EXPECTED CREDIT LOSS

(a) Reconciliation of expected credit loss

	2020				
	Stage 1	Stage 2	Stages 1 and 2	Stage 3	Total
At 1st January	355	123	478	124	602
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	(82)	82	–	–	–
– transfers from Stage 2 to Stage 1	131	(131)	–	–	–
– transfers to Stage 3	(1)	(36)	(37)	37	–
– transfers from Stage 3	1	5	6	(6)	–
Net re-measurement of expected credit loss	(130)	171	41	90	131
New financial assets originated, repayments and further lending	118	(33)	85	(42)	43
Amounts written off	–	–	–	(76)	(76)
Recoveries of advances written off in prior years	–	–	–	19	19
Unwind of discount of expected credit losses	–	–	–	(11)	(11)
Exchange adjustments	9	2	11	(1)	10
At 31st December	401	183	584	134	718
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks (note 10)	–	–	–	–	–
Advances to customers (note 13(a))	275	150	425	134	559
Trade bills (note 13(a))	6	–	6	–	6
Advances to banks (note 13(a))	–	–	–	–	–
Contingent liabilities and commitments to extend credit (note 26)	112	20	132	–	132
Financial assets measured at fair value through other comprehensive income	8	13	21	–	21
	401	183	584	134	718

14. EXPECTED CREDIT LOSS *(Continued)*

(a) Reconciliation of expected credit loss (Continued)

	Stage 1	Stage 2	2019 Stages 1 and 2	Stage 3	Total
At 1st January	486	76	562	249	811
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	(38)	38	–	–	–
– transfers from Stage 2 to Stage 1	94	(94)	–	–	–
– transfers to Stage 3	(2)	(12)	(14)	14	–
– transfers from Stage 3	4	5	9	(9)	–
Net re-measurement of expected credit loss	(272)	152	(120)	242	122
New financial assets originated, repayments and further lending	87	(41)	46	110	156
Amounts written off	–	–	–	(503)	(503)
Recoveries of advances written off in prior years	–	–	–	37	37
Unwind of discount of expected credit losses	–	–	–	(15)	(15)
Exchange adjustments	(4)	(1)	(5)	(1)	(6)
At 31st December	355	123	478	124	602
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks (note 10)	–	–	–	–	–
Advances to customers (note 13(a))	259	104	363	124	487
Trade bills (note 13(a))	2	–	2	–	2
Advances to banks (note 13(a))	–	–	–	–	–
Contingent liabilities and commitments to extend credit (note 26)	83	17	100	–	100
Financial assets measured at fair value through other comprehensive income	11	2	13	–	13
	355	123	478	124	602

Notes to the Consolidated Financial Statements

14. EXPECTED CREDIT LOSS *(Continued)*

(b) *Expected credit loss on financial assets*

The following tables set out information on the credit quality of financial assets and other liabilities.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions (note 10)				
Pass	9,460	–	–	9,460
Less: Expected credit loss	–	–	–	–
Carrying amount	9,460	–	–	9,460
Placements with banks, central banks and other financial institutions (note 11)				
Pass	528	–	–	528
Less: Expected credit loss	–	–	–	–
Carrying amount	528	–	–	528
Advances to customers (note 13(a))				
Pass	166,172	21,576	–	187,748
Special mention	–	866	–	866
Substandard	–	–	196	196
Doubtful	–	–	585	585
Loss	–	–	52	52
Less: Expected credit loss	(275)	(150)	(134)	(559)
Carrying amount	165,897	22,292	699	188,888
Trade bills (note 13(a))				
Pass	2,748	2	–	2,750
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Less: Expected credit loss	(6)	–	–	(6)
Carrying amount	2,742	2	–	2,744
Advances to banks (note 13(a))				
Pass	2,335	–	–	2,335
Less: Expected credit loss	–	–	–	–
Carrying amount	2,335	–	–	2,335
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	76,235	961	–	77,196
Substandard	–	–	30	30
Expected credit loss	(8)	(13)	–	(21)
For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:				
Contingent liabilities and commitments to extend credit (note 29(a))				
Pass	50,559	2,975	–	53,534
Special mention	–	348	–	348
Expected credit loss	(112)	(20)	–	(132)

14. EXPECTED CREDIT LOSS *(Continued)*

(b) Expected credit loss on financial assets *(Continued)*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions (note 10)				
Pass	9,415	–	–	9,415
Less: Expected credit loss	–	–	–	–
Carrying amount	9,415	–	–	9,415
Placements with banks, central banks and other financial institutions (note 11)				
Pass	2,639	–	–	2,639
Less: Expected credit loss	–	–	–	–
Carrying amount	2,639	–	–	2,639
Advances to customers (note 13(a))				
Pass	174,157	14,459	–	188,616
Special mention	–	807	–	807
Substandard	–	–	338	338
Doubtful	–	–	341	341
Loss	–	–	66	66
Less: Expected credit loss	(259)	(104)	(124)	(487)
Carrying amount	173,898	15,162	621	189,681
Trade bills (note 13(a))				
Pass	780	–	–	780
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Less: Expected credit loss	(2)	–	–	(2)
Carrying amount	778	–	–	778
Advances to banks (note 13(a))				
Pass	1,503	–	–	1,503
Less: Expected credit loss	–	–	–	–
Carrying amount	1,503	–	–	1,503
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	71,535	655	–	72,190
Expected credit loss	(11)	(2)	–	(13)
For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:				
Contingent liabilities and commitments to extend credit (note 29(a))				
Pass	47,664	1,117	–	48,781
Special mention	–	382	–	382
Expected credit loss	(83)	(17)	–	(100)

Notes to the Consolidated Financial Statements

15. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
Debt securities:		
Listed in Hong Kong	18,591	16,873
Listed outside Hong Kong	36,397	29,681
	54,988	46,554
Unlisted	22,238	25,636
	77,226	72,190
Equity securities:		
Unlisted	2,673	1,954
	2,673	1,954
	79,899	74,144
Debt securities include:		
Treasury bills	17,972	14,935
Certificates of deposit held	10,336	11,984
Other debt securities	48,918	45,271
	77,226	72,190

Financial assets measured at fair value through other comprehensive income analysed by counterparty are as follows:

	2020	2019
Issued by:		
Sovereigns	17,972	14,935
Public sector entities	351	72
Banks	38,586	36,802
Corporates	22,990	22,335
	79,899	74,144

16. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Principal activities
Banco OCBC Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
OCBC Wing Hang Bank (China) Limited	People's Republic of China	RMB5,467,000,000	100%	Banking
OCBC Inchroy Credit Corporation Limited	Hong Kong	HK\$25,000,000	100%	Hire Purchase
OCBC Wing Hang Finance Company Limited	Hong Kong	HK\$130,000,000	100%	Hire Purchase
OCBC Wing Hang Credit Limited	Hong Kong	HK\$20,000,000	100%	Consumer Lending
OCBC Wing Hang Insurance Brokers Limited	Hong Kong	HK\$100,000	100%	Insurance Broker
OCBC Wing Hang Insurance Agency Limited	Hong Kong	HK\$50,000	100%	Insurance Agency
OCBC Wing Hang Shares Brokerage Company Limited	Hong Kong	HK\$10,000,000	100%	Securities Dealing
Cheuk Woo Enterprises Company Limited	Hong Kong	HK\$10,000	100%	Property Investment

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.

Notes to the Consolidated Financial Statements

17. INVESTMENTS IN ASSOCIATED COMPANIES

	2020	2019
Share of net assets	624	614

The following list contains the particulars of material associated companies:

Name of company	Note	Form of business structure	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Voting power	Principal activities
Bank Consortium Holding Limited	1	Incorporated	Hong Kong	HK\$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	2	Incorporated	Hong Kong	HK\$870,000,000	33%	1 out of 3*	Insurance

* Representing the Group's number of votes on the board of directors of the respective associated companies.

Note 1: Bank Consortium Holding Limited, a major provider of retirement plans and pension fund services in Hong Kong, enables the Group to enhance its Mandatory Provident Fund services.

Note 2: Hong Kong Life Insurance Limited, a major insurance company in Hong Kong, enables the Group to expand the customer base for its insurance services.

All of the above associated companies are accounted for using the equity method in the consolidated financial statements.

In respect of the year ended 31st December, 2020, the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited were included in these financial statements based on accounts drawn up to 30th November, 2020. The Group has taken advantage of the provision contained in HKAS 28, *Investments in Associates*, whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

17. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

Summarised financial information of the material associated companies, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Bank Consortium Holding Limited		Hong Kong Life Insurance Limited	
	2020	2019	2020	2019
Gross amounts of the associated companies				
Assets	1,050	1,018	19,725	18,985
Liabilities	98	141	18,309	17,544
Net assets	952	877	1,416	1,441
Total operating income	754	712	3,041	1,963
Profit/(loss) after tax	229	219	(71)	(29)
Other comprehensive income	–	–	–	168
Total comprehensive income	229	219	(71)	139
Dividends received from the associated companies	48	47	–	–
Reconciled to the Group's interests in the associated companies				
Gross amounts of net assets of the associated companies	952	877	1,416	1,441
Group's effective interest	27%	27%	33%	33%
Group's share of net assets of the associated companies	254	234	472	480
Dividends received from the associated companies	(48)	(47)	–	–
Elimination of unrealised gain on transfer of bank premises to the associated companies	(38)	(38)	(26)	(26)
Carrying amount in the consolidated financial statements	168	149	446	454

Notes to the Consolidated Financial Statements

17. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

Aggregate information of an associated company that is not individually material:

	2020	2019
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	10	11
Aggregate amounts of the Group's share of net assets of the associated company	10	11
Total operating income	114	131
(Loss)/profit after tax	(1)	1
Total comprehensive income	(1)	1
Reconciliation of carrying amounts to the Group's total interests in the associated companies:		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	168	149
– Hong Kong Life Insurance Limited	446	454
Carrying amount of the individually immaterial associated company	10	11
Investment in associated companies in the consolidated financial statements	624	614

18. TANGIBLE FIXED ASSETS

	2020								
	Investment properties	Bank premises	Right of use assets – Bank premises	Total Bank premises	Equipment	Right of use assets – equipment	Total equipment	Bank premises and equipment	Total
Cost or valuation									
At 1st January, 2020	367	5,687	338	6,025	1,535	2	1,537	7,562	7,929
Additions	–	–	119	119	117	2	119	238	238
Disposals	(74)	(165)	(38)	(203)	(108)	(1)	(109)	(312)	(386)
Reclassification of bank premises to assets held for sale	–	(2)	–	(2)	–	–	–	(2)	(2)
Surplus/(deficit) on revaluation									
– charged to bank premises revaluation reserve	–	(152)	–	(152)	–	–	–	(152)	(152)
– credited to consolidated statement of profit or loss (note 5(f))	17	–	–	–	–	–	–	–	17
Elimination of accumulated depreciation on revalued bank premises	–	(92)	–	(92)	–	–	–	(92)	(92)
Exchange adjustment	2	12	11	23	(1)	–	(1)	22	24
At 31st December, 2020	312	5,288	430	5,718	1,543	3	1,546	7,264	7,576
The analysis of cost or valuation of the above assets is as follows:									
At cost	–	1,367	430	1,797	1,543	3	1,546	3,343	3,343
At valuation 2020 (note 18(a))	312	3,921	–	3,921	–	–	–	3,921	4,233
	312	5,288	430	5,718	1,543	3	1,546	7,264	7,576
Accumulated depreciation									
At 1st January, 2020	21	420	110	530	1,254	1	1,255	1,785	1,806
Charge for the period (note 5 (g))	–	120	120	240	95	1	96	336	336
Written back on disposals	(21)	(78)	(19)	(97)	(107)	(1)	(108)	(205)	(226)
Reclassification of bank premises to assets held for sale	–	(1)	–	(1)	–	–	–	(1)	(1)
Elimination of accumulated depreciation on revalued bank premises	–	(92)	–	(92)	–	–	–	(92)	(92)
Exchange adjustment	–	6	7	13	1	–	1	14	14
At 31st December, 2020	–	375	218	593	1,243	1	1,244	1,837	1,837
Net book value									
At 31st December, 2020	312	4,913	212	5,125	300	2	302	5,427	5,739

Notes to the Consolidated Financial Statements

18. TANGIBLE FIXED ASSETS *(Continued)*

	2019								
	Investment properties	Bank premises	Right of use assets – Bank premises	Total Bank premises	Equipment	Right of use assets – equipment	Total equipment	Bank premises and equipment	Total
Cost or valuation									
At 31st December, 2018	289	5,777	–	5,777	1,506	–	1,506	7,283	7,572
Impact on initial application of HKFRS16	–	–	299	299	–	2	2	301	301
At 1st January, 2019 after opening balance adjustment	289	5,777	299	6,076	1,506	2	1,508	7,584	7,873
Additions	79	2	44	46	85	–	85	131	210
Disposals	–	–	(2)	(2)	(56)	–	(56)	(58)	(58)
Deficit on revaluation									
– charged to bank premises revaluation reserve	–	(6)	–	(6)	–	–	–	(6)	(6)
– credited to consolidated statement of profit or loss (note 5(f))	–	–	–	–	–	–	–	–	–
Elimination of accumulated depreciation on revalued bank premises	–	(86)	–	(86)	–	–	–	(86)	(86)
Exchange adjustment	(1)	–	(3)	(3)	–	–	–	(3)	(4)
At 31st December, 2019	367	5,687	338	6,025	1,535	2	1,537	7,562	7,929
The analysis of cost or valuation of the above assets is as follows:									
At cost	–	1,359	338	1,697	1,535	2	1,537	3,234	3,234
At valuation									
2019 (note 18(a))	367	4,328	–	4,328	–	–	–	4,328	4,695
	367	5,687	338	6,025	1,535	2	1,537	7,562	7,929
Accumulated depreciation									
At 1st January, 2019	21	385	–	385	1,207	–	1,207	1,592	1,613
Charge for the period (note 5 (g))	–	121	112	233	95	1	96	329	329
Written back on disposals	–	–	(1)	(1)	(48)	–	(48)	(49)	(49)
Elimination of accumulated depreciation on revalued bank premises	–	(86)	–	(86)	–	–	–	(86)	(86)
Exchange adjustment	–	–	(1)	(1)	–	–	–	(1)	(1)
At 31st December, 2019	21	420	110	530	1,254	1	1,255	1,785	1,806
Net book value									
At 31st December, 2019	346	5,267	228	5,495	281	1	282	5,777	6,123

18. TANGIBLE FIXED ASSETS *(Continued)*

(a) *Fair value measurement of properties*

(i) **Fair value hierarchy**

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

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.
- Level 3: Fair value measured using significant unobservable inputs.

	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	312	312
Bank premises held for administrative use	–	–	3,921	3,921
	–	–	4,233	4,233
	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	367	367
Bank premises held for administrative use	–	–	4,328	4,328
	–	–	4,695	4,695

During the year ended 31st December, 2020, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises held for administrative use were revalued by independent firms of surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, Shanghai BDGH Chartered Valuation Surveyors Co., Ltd, who is registered with the Royal Institution of Chartered Surveyors and Cushman & Wakefield Plc. All firms have recent experience in the location and category of the properties being valued.

Notes to the Consolidated Financial Statements

18. TANGIBLE FIXED ASSETS *(Continued)*

(a) Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable inputs	Ranges
Investment properties and bank premises held for administrative use	Direct comparison approach	Premium (discount) on quality of the properties	-27% to 28% (2019: -6% to 53%)

The fair value of investment properties and bank premises are determined using the direct comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's properties compared to the recent sales. The valuations take into account characteristics of the properties including the location, size, view, floor level, year of completion and other factors collectively. Higher premiums for higher quality properties will result in a higher fair value measurement.

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

	2020		2019	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	367	4,328	289	4,419
Addition	–	–	79	–
Disposals	(74)	(163)	–	–
Depreciation charge for the year	–	(92)	–	(85)
Surplus/(deficit) on revaluation				
– charged to bank premises revaluation reserve	–	(152)	–	(6)
– credited to consolidated statement of profit or loss	17	–	–	–
Exchange difference	2	–	(1)	–
At 31st December	312	3,921	367	4,328

Fair value adjustment of investment properties is recognised in the line item "Other income" on the face of the consolidated statement of profit or loss.

Surplus on revaluation of bank premises is recognised in OCI as "Bank premises revaluation reserve".

All the gains recognised in the consolidated statement of profit or loss for the year arise from the properties held at the end of the reporting period.

18. TANGIBLE FIXED ASSETS *(Continued)*

(a) Fair value measurement of properties *(Continued)*

- (iii) The deficit on revaluation on bank premises held for administrative use net of deferred tax of HK\$164 million (2019: deficit of HK\$18 million) have been recognised in OCI and accumulated in the bank premises revaluation reserve of the Group.
- (iv) The carrying amount of the Group's bank premises held for administrative use would have been HK\$756 million (2019: HK\$776 million) had they been stated at cost less accumulated depreciation.

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

	2020	2019
FREEHOLD		
– Held outside Hong Kong	259	278
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,505	2,671
Medium-term leases (10 to 50 years unexpired)	1,722	1,786
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	3	3
Medium-term leases (10 to 50 years unexpired)	392	507
Short-term leases (less than 10 years unexpired)	344	368
	5,225	5,613

(c) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

The Group's total future minimum lease payments of all fixed assets under non-cancellable operating leases are receivables as follows:

	2020	2019
Within 1 year	4	5
After 1 year but within 5 years	1	3
	5	8

Notes to the Consolidated Financial Statements

19. ASSETS HELD FOR SALE

	2020	2019
Assets held for sale		
– Bank Premises	1	–

In November 2020, the Group decided to divest one of the self-use bank premises Flat B on 1/F and Flat Roof, Wah Hing House, No. 343 Sha Tsui Road, Tsuen Wan, New Territories to a third party. Preliminary Sale & Purchase Agreement has been signed in November 2020 and the sales amounts to be fully received in January 2021. In January 2021, the property will be handed over to buyer and title deed transfer is targeted to be completed by end of January 2021.

20. GOODWILL

(a) Goodwill

	2020	2019
Cost		
At 1st January/31st December	1,307	1,307
Accumulated impairment loss		
At 1st January/31st December	1	1
Net book value		
At 31st December	1,306	1,306

(b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

	2020	2019
Hong Kong:		
Retail banking business acquired	1,019	1,019
Corporate banking business acquired	234	234
Treasury business acquired	53	53
	1,306	1,306

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 3.00% (2019: 3.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 10.50% (2019: 10.11%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31st December, 2020		31st December, 2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	108	112	107	108
After 1 year but within 2 years	83	85	65	67
After 2 years but within 5 years	29	30	53	59
After 5 years	–	–	6	7
	112	115	124	133
	220	227	231	241
Less: total future interest expenses		(7)		(10)
Present value of lease liabilities		220		231

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 6 months to 5 years but may have extension options as described below. 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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Extension and termination options:

Extension and termination options are included in a number of tangible fixed assets leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Residual value guarantees:

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Notes to the Consolidated Financial Statements

22. DEPOSITS AND BALANCES OF BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
Deposits from central banks	–	–
Deposits from banks	10,264	9,024
	10,264	9,024

23. DEPOSITS FROM CUSTOMERS

	2020	2019
Demand deposits and current accounts	94,413	71,027
Savings deposits	34,687	28,089
Time, call and notice deposits	88,314	110,412
	217,414	209,528

24. CERTIFICATES OF DEPOSIT AND FIXED RATE NOTE ISSUED

	2020	2019
Certificates of deposit issued at amortised cost (note 33(a))	15,268	12,025
Fixed rate note issued at amortised cost	2,376	2,229
	17,644	14,254

25. TRADING LIABILITIES

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 30(a).

26. OTHER ACCOUNTS AND PROVISIONS

	2020	2019
Acceptances outstanding	979	1,188
Interest payable	276	446
Negative fair value of derivative financial instruments held for hedging (note 30(a)(ii))	685	362
Other payables	2,282	2,191
Expected credit loss (Stages 1 and 2) on contingent liabilities and commitments to extend credit (note 14)	132	100
	4,354	4,287

27. MATURITY PROFILE

The following maturity profiles of the assets and liabilities of the Group are based on the remaining periods to repayment at the reporting date.

	Repayable on demand	2020					Over 5 years	Undated	Total
		Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years			
Assets									
Cash and balances with banks, central banks and other financial institutions	9,460	–	–	–	–	–	–	–	9,460
Placements with banks, central banks and other financial institutions	–	528	–	–	–	–	–	–	528
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	4,960	1,086	394	1	389	–	–	6,830
Trading assets	–	–	–	48	2,699	287	6,670	–	9,704
Advances to customers	2,000	31,781	10,064	28,213	58,378	57,869	583	–	188,888
Trade bills	2	617	956	1,169	–	–	–	–	2,744
Advances to banks	–	424	434	1,477	–	–	–	–	2,335
Financial assets measured at fair value through other comprehensive income	–	4,106	4,216	26,725	39,095	3,084	2,673	–	79,899
Other assets	1	2,262	713	236	405	20	8,146	–	11,783
Total assets	11,463	44,678	17,469	58,262	100,578	61,649	18,072	–	312,171
Liabilities									
Deposits and balances of banks, central banks and other financial institutions	388	9,861	14	1	–	–	–	–	10,264
Amounts due to ultimate holding company and fellow subsidiaries	473	980	3,368	4,230	689	–	–	–	9,740
Deposits from customers	128,954	42,089	28,702	15,635	2,034	–	–	–	217,414
Certificates of deposit and fixed rate note issued	–	4,001	9,218	4,225	200	–	–	–	17,644
Trading liabilities	–	–	–	–	–	–	5,895	–	5,895
Lease liabilities	–	11	20	77	112	–	–	–	220
Other liabilities	–	2,152	770	273	689	83	817	–	4,784
Total liabilities	129,815	59,094	42,092	24,441	3,724	83	6,712	–	265,961
Net assets/(liabilities) gap	(118,352)	(14,416)	(24,623)	33,821	96,854	61,566	11,360	–	46,210

of which:

Certificates of deposit held

– included in financial assets measured at fair value through other comprehensive income

– 775 1,392 8,169 – – – 10,336

Debt securities

– included in trading assets

– – – 48 2,699 287 – 3,034

– included in financial assets measured at fair value through other comprehensive income

– 3,331 2,825 18,555 39,096 3,083 – 66,890

Notes to the Consolidated Financial Statements

27. MATURITY PROFILE *(Continued)*

		2019						
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	9,415	–	–	–	–	–	–	9,415
Placements with banks, central banks and other financial institutions	–	1,923	117	599	–	–	–	2,639
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	737	15	14	369	–	–	1,135
Trading assets	–	–	–	339	1,656	266	3,705	5,966
Advances to customers	2,436	22,799	12,492	30,349	56,578	64,632	395	189,681
Trade bills	4	283	354	42	95	–	–	778
Advances to banks	–	5	206	1,292	–	–	–	1,503
Financial assets measured at fair value through other comprehensive income	–	4,114	4,311	21,358	40,376	2,031	1,954	74,144
Other assets	1	2,074	848	255	338	5	8,353	11,874
Total assets	11,856	31,935	18,343	54,248	99,412	66,934	14,407	297,135
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	365	8,645	13	1	–	–	–	9,024
Amounts due to ultimate holding company and fellow subsidiaries	448	976	6,348	3,455	1,171	–	–	12,398
Deposits from customers	98,966	60,945	33,148	14,073	2,396	–	–	209,528
Certificates of deposit and fixed rate note issued	–	2,479	6,632	2,414	2,729	–	–	14,254
Trading liabilities	–	–	–	–	–	–	3,408	3,408
Lease liabilities	–	11	18	76	119	7	–	231
Other liabilities	–	2,672	1,004	275	413	39	647	5,050
Total liabilities	99,779	75,728	47,163	20,294	6,828	46	4,055	253,893
Net assets/(liabilities) gap	(87,923)	(43,793)	(28,820)	33,954	92,584	66,888	10,352	43,242

of which:

Certificates of deposit held

– included in financial assets measured at fair value through other comprehensive income

– 801 1,523 9,660 – – – 11,984

Debt securities

– included in trading assets

– – – 339 1,656 266 – 2,261

– included in financial assets measured at fair value through other comprehensive income

– 3,313 2,788 11,698 40,376 2,031 – 60,206

28. SHARE CAPITAL AND RESERVES

(a) *Share capital*

	2020		2019	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	353	7,308	353	7,308
At 31st December	353	7,308	353	7,308

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

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

(b) *Perpetual capital securities issued*

	2020	2019
HK\$3,000 million perpetual non-cumulative subordinated Additional Tier 1 capital securities at amortised cost (2019: HK\$3,000 million)	3,000	3,000

On 12th December, 2018, the Bank issued non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company, Oversea-Chinese Banking Corporation Limited. The securities are undated and bear a coupon rate of 5.3% per annum for the first 5 years until the first optional call date on 12th December, 2023. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

On 27th September, 2019, the Bank issued another non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company, Oversea-Chinese Banking Corporation Limited. The securities are undated and bear a coupon rate of 4.25% per annum for the first 5 years until the first optional call date on 27th September, 2024. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

Notes to the Consolidated Financial Statements

28. SHARE CAPITAL AND RESERVES *(Continued)*

(c) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	General reserve	Bank premises revaluation reserve	Investment revaluation reserve (recycling)	The Bank 2020 Investment revaluation reserve (non- recycling)	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,802	2,943	88	923	(4)	17,536	23,288
Coupon of perpetual capital securities	–	–	–	–	–	(144)	(144)
Dividend paid for the period	–	–	–	–	–	(900)	(900)
Transfer (from)/to reserve	–	(33)	–	–	–	33	–
	–	(33)	–	–	–	(1,011)	(1,044)
Other comprehensive income:							
– fair value changes on cash flow hedges net of deferred tax	–	–	–	–	–	–	–
– fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	–	–	134	303	–	–	437
– fair value changes on financial assets measured at fair value through other comprehensive income transferred to statement of profit or loss on disposal net of deferred tax	–	–	(55)	–	–	–	(55)
– deficit on revaluation net of deferred tax	–	(137)	–	–	–	–	(137)
– reclassification of bank premises to assets held for sale	–	(1)	–	–	–	–	(1)
– expected credit losses on debt securities	–	–	2	–	–	–	2
– profit attributable to shareholder of the Bank for the year	–	–	–	–	–	2,428	2,428
Total comprehensive income for the year, net of tax	–	(138)	81	303	–	2,428	2,674
At 31st December	1,802	2,772	169	1,226	(4)	18,953	24,918

28. SHARE CAPITAL AND RESERVES *(Continued)*

(c) Reserves (Continued)

	General reserve	Bank premises revaluation reserve	Investment revaluation reserve (recycling)	The Bank 2019 Investment revaluation reserve (non- recycling)	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,802	3,005	(142)	525	4	17,277	22,471
Coupon of perpetual capital securities	–	–	–	–	–	(80)	(80)
Dividend paid for the period	–	–	–	–	–	(1,500)	(1,500)
Transfer (from)/to reserve	–	(33)	–	–	–	33	–
	–	(33)	–	–	–	(1,547)	(1,580)
Other comprehensive income:							
– fair value changes on cash flow hedges net of deferred tax	–	–	–	–	(8)	–	(8)
– fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	–	–	287	398	–	–	685
– fair value changes on financial assets measured at fair value through other comprehensive income transferred to statement of profit or loss on disposal net of deferred tax	–	–	(51)	–	–	–	(51)
– deficit on revaluation net of deferred tax	–	(29)	–	–	–	–	(29)
– expected credit losses on debt securities	–	–	(6)	–	–	–	(6)
– profit attributable to shareholder of the Bank for the year	–	–	–	–	–	1,806	1,806
Total comprehensive income for the year, net of tax	–	(29)	230	398	(8)	1,806	2,397
At 31st December	1,802	2,943	88	923	(4)	17,536	23,288

The Group's unappropriated profits as at 31st December, 2020 included the accumulated gains of HK\$588 million (2019: HK\$523 million) of the associated companies and a regulatory reserve of HK\$844 million (2019: HK\$1,824 million). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

Notes to the Consolidated Financial Statements

28. SHARE CAPITAL AND RESERVES *(Continued)*

(c) Reserves *(Continued)*

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by Banco OCBC Weng Hang, S.A. and OCBC Wing Hang Bank (China) Limited in accordance with the local banking regulations and are not available for distribution.

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the reporting date of OCBC Wing Hang Bank (China) Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from the translation of the financial statements of overseas subsidiaries (note 2(n)).

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges (note 2(i)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and financial assets measured at fair value through other comprehensive income (notes 2(o) and (f)). Bank premises revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2020, the aggregate amount of reserves available for distribution to equity shareholder of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed in the cash flow hedging reserve was HK\$19,003 million (2019: HK\$18,360 million).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to equity shareholder.

29. CONTINGENT LIABILITIES AND COMMITMENTS

(a) *Contingent liabilities and commitments to extend credit*

Contingent liabilities and commitments arise from forward asset purchases, amounts owing to partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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

	2020	2019
Direct credit substitutes	3,919	2,836
Transaction-related contingencies	1,251	1,362
Trade-related contingencies	2,475	1,416
Forward deposits	3,255	1,790
Other commitments:		
With an original maturity of not more than one year	1,318	594
With an original maturity over one year	5,661	5,847
Which are unconditionally cancellable	36,003	35,318
Total	53,882	49,163
Credit risk weighted amounts	8,459	6,679

(b) *Capital commitments*

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2020 not provided for in the financial statements are as follows:

	2020	2019
Expenditure authorised and contracted for	40	61
Expenditure authorised but not contracted for	–	–
	40	61

Notes to the Consolidated Financial Statements

30. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives refer to financial contracts for which the value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivative.

		2020	
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts	493	259,681	260,174
Interest rate contracts	25,162	487,141	512,303
Equity contracts	–	5,089	5,089
Credit derivative contracts	–	3,204	3,204
	25,655	755,115	780,770

		2019	
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts	495	313,331	313,826
Interest rate contracts	24,938	440,967	465,905
Equity contracts	–	4,344	4,344
Credit derivative contracts	–	4,368	4,368
	25,433	763,010	788,443

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions. Derivatives arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate, debt and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(a) *Use of derivative financial instruments*

- (i) The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivative entered into by the Group:

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	4,471	3,936	2,150	1,927
Interest rate contracts	1,807	1,567	1,073	999
Equity contracts	391	391	481	481
Credit derivative contracts	1	1	1	1
Total (notes 12 and 25)	6,670	5,895	3,705	3,408

- (ii) The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivative entered into by the Group:

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	–	52	–	17
Interest rate contracts	7	633	3	345
Total (notes 13 and 26)	7	685	3	362

(b) *Remaining life of derivative financial instruments*

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the reporting date.

	2020			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	256,080	4,094	–	260,174
Interest rate contracts	300,406	210,194	1,703	512,303
Equity contracts	1,797	3,292	–	5,089
Credit derivative contracts	3,204	–	–	3,204
	561,487	217,580	1,703	780,770

Notes to the Consolidated Financial Statements

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(b) Remaining life of derivative financial instruments (Continued)

	2019			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	308,472	5,354	–	313,826
Interest rate contracts	283,622	180,646	1,637	465,905
Equity contracts	1,499	2,845	–	4,344
Credit derivative contracts	4,368	–	–	4,368
	597,961	188,845	1,637	788,443

(c) The credit risk weighted amounts are as follows:

	2020	2019
Exchange rate contracts	3,504	2,850
Interest rate contracts	133	113
Equity contracts	40	95
Credit derivative contracts	–	–
Derivative contracts subject to valid bilateral netting agreements	228	–
	3,905	3,058

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100% after taking into account the effects of bilateral netting agreement (31st December, 2019: These amounts do not take into account the effects of bilateral netting arrangements).

(d) Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets due to movements in market interest rates. At 31st December, 2020, the net negative fair value of derivatives held as fair value hedges was HK\$674 million (2019: net negative fair value of HK\$356 million).

The losses on the hedging instruments for the year were HK\$284 million (2019: losses of HK\$276 million). The gains on the hedged items attributable to the hedged risk for the year were HK\$283 million (2019: gains of HK\$279 million).

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value hedges *(Continued)*

As at 31st December, 2020, the following populations of derivative instruments designated in fair value hedge accounting relationships were linked to IBOR reference rates:

	2020	
	Notional designated	Weighted average exposure years
Interest rate swaps		
HIBOR	74	2.18
USD LIBOR	11,786	2.59
EUIBOR	390	2.90
SHIBOR	297	2.11
	12,547	
Cross-currency swaps		
USD LIBOR and CNH Fixed Rate	493	1.64
	493	

(e) Cash flow hedges

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate assets and fixed rate liabilities. At 31st December, 2020, the net negative fair value of derivatives held as cash flow hedges was HK\$4 million (2019: net negative fair value of HK\$3 million). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2019: nil). Hedging relationships that are impacted by IBOR reform may experience ineffectiveness because of a timing mismatch between the hedged item and the hedging instrument regarding IBOR transition.

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of profit or loss are as follows:

	2020			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Forecast receivable cash flows	–	302	–	302
Forecast payable cash flows	–	(72)	–	(72)
Forecast net receivable cash flows	–	230	–	230

Notes to the Consolidated Financial Statements

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(e) Cash flow hedges (Continued)

		2019		
	Less than 1 year	1 to 5 years	Over 5 years	Total
Forecast receivable cash flows	118	–	–	118
Forecast payable cash flows	(88)	–	–	(88)
Forecast net receivable cash flows	30	–	–	30

As at 31st December, 2020, the following populations of derivative instruments designated in cash flow hedge accounting relationships were linked to IBOR reference rates:

	2020	
	Notional designated	Weighted average exposure years
Interest rate swaps HIBOR	12,615	1.46
	12,615	

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2020	2019
Operating profit	3,368	2,878
Adjustments for non-cash items:		
Change in expected credit loss and other credit impairment charges	174	278
Interest expense on fixed rate note issued (note 5(b))	93	93
Interest expense on lease liabilities (note 5(b))	5	7
Net gains from disposal of financial assets measured at fair value through other comprehensive income (note 5(f))	(212)	(159)
Gains on revaluation of investment properties (note 5(f))	(17)	–
(Gains)/losses on disposal of tangible fixed assets (note 5(f))	(170)	3
Depreciation (note 5(g))	336	329
	3,577	3,429
Changes in working capital:		
Change in treasury bills with original maturity of three months or above	(5,813)	78
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	1,439	(1,045)
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	114	3,554
Change in certificates of deposit held	1,648	9,590
Change in trading assets	(2,242)	(533)
Change in advances to customers and other accounts	(2,401)	4,077
Change in deposits and balances of banks, central banks and other financial institutions	1,293	4,663
Change in amounts due to ultimate holding company and fellow subsidiaries	(2,722)	(25,246)
Change in deposits from customers	7,885	(12,326)
Change in certificates of deposit issued	3,243	6,987
Change in trading liabilities	2,487	8
Change in other accounts and provision	32	759
Net cash inflow/(outflow) from operations	8,540	(6,005)
Profits tax paid	(924)	(228)
Net cash inflow/(outflow) from operating activities	7,616	(6,233)

Notes to the Consolidated Financial Statements

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Reconciliation of cash and cash equivalents with the consolidated statement of financial position

	2020	2019
Cash and balances with banks, central banks and other financial institutions	9,460	9,415
Placements with banks, central banks and other financial institutions	528	2,639
Amounts due from ultimate holding company and fellow subsidiaries	6,830	1,135
Treasury bills	20,266	15,733
Amounts shown in the consolidated statement of financial position	37,084	28,922
Less: Amounts with an original maturity of three months or above	(20,362)	(16,103)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(346)	(335)
Cash and cash equivalents in the consolidated cash flow statement	16,376	12,484

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated cash flow statement as cash flows from financing activities.

	2020	2019
At 1st January	5,469	3,791
Effect of adoption of HKFRS 16	–	300
Issue of perpetual capital securities	–	1,500
Interest paid on fixed rate note	(96)	(91)
Payment of lease liabilities	(125)	(115)
Exchange adjustment	162	(59)
Net increase in lease liabilities from entering into new leases and termination of existing leases	96	43
Interest expenses on fixed rate note (note 5(b))	93	93
Interest expenses on lease liabilities (note 5(b))	5	7
At 31st December	5,604	5,469

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2020	2019
Within operating cash flows	12	33
Within investing cash flows	–	–
Within financing cash flows	125	115
	137	148

32. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include acceptance of deposits, advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities, trading activities and management of shareholders' funds.

Mainland China segment

This comprises the business of OCBC Wing Hang Bank (China) Limited, for which the main business is corporate banking and treasury activities.

Macau segment

This comprises the business of Banco OCBC Weng Hang, S.A., for which the main business is retail banking activities.

Notes to the Consolidated Financial Statements

32. SEGMENT REPORTING *(Continued)*

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (including equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to customers and banks which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fees and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

"Others" in the reconciliation to the reported amount on the consolidated statement of profit or loss and consolidated statement of financial position mainly represent the management of equity shares.

32. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below:

During the year, the Group implemented the holding company's management reporting system. To correspond to the change of management reporting system and internal management reports, segmentation was changed accordingly for current year. As a result, certain comparative figures are restated to conform to current year's presentation.

	2020						
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Net interest income	1,500	713	1,069	3,282	930	582	4,794
Non-interest income	636	101	496	1,233	432	149	1,814
Reportable segment revenue	2,136	814	1,565	4,515	1,362	731	6,608
Operating expenses	(1,489)	(318)	(146)	(1,953)	(840)	(324)	(3,117)
Operating profit before expected credit losses	647	496	1,419	2,562	522	407	3,491
Change in expected credit loss and other credit impairment charges	(114)	2	(2)	(114)	(28)	(13)	(155)
Operating profit	533	498	1,417	2,448	494	394	3,336
Share of net gains of associated companies	–	–	–	–	–	–	–
Reportable segment profit before tax	533	498	1,417	2,448	494	394	3,336
Depreciation	75	–	2	77	127	24	228
Reportable segment assets	69,155	67,935	59,333	196,423	73,221	34,013	303,657
Addition to non-current segment assets	29	–	–	29	52	6	87
Reportable segment liabilities	112,695	37,092	14,040	163,827	63,113	28,788	255,728

Notes to the Consolidated Financial Statements

32. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

	2019 (restated)						
	Hong Kong				Mainland		
	Retail banking	Corporate banking	Treasury	Total	China	Macau	Total
Net interest income	1,784	839	925	3,548	932	541	5,021
Non-interest income	638	83	105	826	440	153	1,419
Reportable segment revenue	2,422	922	1,030	4,374	1,372	694	6,440
Operating expenses	(1,511)	(303)	(135)	(1,949)	(964)	(334)	(3,247)
Operating profit before expected credit losses	911	619	895	2,425	408	360	3,193
Change in expected credit loss and other credit impairment charges	(89)	(12)	6	(95)	(203)	19	(279)
Operating profit	822	607	901	2,330	205	379	2,914
Share of net gains of associated companies	–	–	–	–	–	–	–
Reportable segment profit before tax	822	607	901	2,330	205	379	2,914
Depreciation	67	–	2	69	129	25	223
Reportable segment assets	79,069	58,858	54,198	192,125	62,191	35,216	289,532
Addition to non-current segment assets	15	1	–	16	30	9	55
Reportable segment liabilities	110,172	35,971	16,275	162,418	53,012	30,201	245,631

32. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities (Continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

	2020	2019 (restated)
Revenue		
Reportable segment revenue	6,608	6,440
Other revenue	37	28
Elimination of inter-segment revenue	(70)	(52)
Consolidated operating income	6,575	6,416

	2020	2019 (restated)
Profit before taxation		
Reportable segment profit before taxation	3,336	2,914
Share of net gains of associated companies	65	55
Other net gains/(losses)	32	(36)
Consolidated profit before taxation	3,433	2,933

	2020	2019 (restated)
Assets		
Reportable segment assets	303,657	289,532
Investments in associated companies	624	614
Tangible fixed assets	4,605	4,766
Goodwill	1,306	1,306
Current tax recoverable	14	–
Deferred tax assets	19	10
Other assets	10,975	10,939
Elimination of inter-segment assets	(9,029)	(10,032)
Consolidated total assets	312,171	297,135

Notes to the Consolidated Financial Statements

32. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities (Continued)

	2020	2019 (restated)
Liabilities		
Reportable segment liabilities	255,728	245,631
Current tax payable	21	421
Deferred tax liabilities	35	7
Other liabilities	11,629	9,525
Elimination of inter-segment liabilities	(1,452)	(1,691)
Consolidated total liabilities	265,961	253,893

(b) Other geographical information

	2020				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	6,523	514	620	12	7,669
Contingent liabilities and commitments (note 29(a))	24,966	26,249	3,407	(740)	53,882
	2019				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	6,719	644	669	11	8,043
Contingent liabilities and commitments (note 29(a))	20,689	25,044	4,128	(698)	49,163

33. MATERIAL RELATED PARTY TRANSACTIONS

(a) Ultimate holding company

The Oversea-Chinese Banking Corporation Limited ("OCBC")

During the year, transactions with OCBC were entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as a related company and on-balance sheet and off-balance sheet outstanding at the reporting date were:

	2020	2019
(i) Income and expense during the year		
Interest income	58	284
Interest expense	228	624
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company	8,397	12,354
Amounts due to ultimate holding company	16,617	22,770
Certificates of deposits issued	1,119	1,434
Interest payable	2	4
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	6,339	684
Amounts due to ultimate holding company	9,574	12,261
Certificates of deposits issued	2,325	2,414
Interest payable	–	7
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	36,163	21,956
Interest rate contracts	53,256	54,622
Equity contracts	2,544	2,145
Credit derivative contracts	1,602	2,184

Notes to the Consolidated Financial Statements

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Fellow companies

(1) Fellow subsidiaries

During the year, transactions with OCBC fellow subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet outstanding at the reporting date are:

	2020	2019
(i) Income and expense during the year		
Interest income	19	19
Interest expense	3	3
Other operating income	15	6
Operating expense	16	8
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow subsidiaries	475	465
Amounts due to fellow subsidiaries	158	134
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	491	451
Amounts due to fellow subsidiaries	166	137

(2) Fellow associates

During the year, transactions with OCBC fellow associates are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2020	2019
(i) Income and expense during the year		
Interest income	–	4
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow associates	–	88
Amounts due to fellow associates	3	–
(iii) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	1,026	5,669
Interest rate contracts	119	–

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Subsidiaries

During the year, the Bank entered into transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year, on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2020	2019
(i) Income and expense during the year		
Interest income	477	723
Interest expense	26	103
Other operating income	670	139
Operating expense	77	65

The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.

Other operating income represents income from providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.

Operating expense represents rental services and share brokerage services fees paid to the Bank's subsidiaries by the Bank.

All income and expense on these transactions are determined on an arm's length basis.

(ii) Average on-balance sheet outstanding during the year

Amounts due from subsidiaries	24,106	27,434
Amounts due to subsidiaries	3,859	6,326

(iii) On-balance sheet outstanding at the reporting date

Amounts due from subsidiaries	23,227	25,875
Amounts due to subsidiaries	3,253	4,042

During the year, no expected credit loss (Stage 3) has been made in respect of these balances as at 31st December, 2020 (2019: nil).

(iv) Off-balance sheet outstanding (contract amounts) at the reporting date

Direct credit substitutes	8	8
Other commitments	3,050	768

Notes to the Consolidated Financial Statements

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Subsidiaries (Continued)

	2020	2019
(v) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	535	47
Interest rate contracts	2,666	2,673

(d) Associated companies

During the year, the Bank entered into transactions with associated companies in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year and on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2020	2019
(i) Income and expense during the year		
Interest expense	15	22
(ii) Average on-balance sheet outstanding during the year		
Deposits from customers	1,266	1,319
(iii) On-balance sheet outstanding at the reporting date		
Deposits from customers	1,197	1,178

(e) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments during the year, average on-balance sheet outstanding during the year and on-balance sheet outstanding at the reporting date are as follows:

	2020	2019
(i) Income and expense during the year		
Interest expense	18	40
(ii) Average on-balance sheet outstanding during the year		
Advances to customers	9	6
Deposits from customers	1,813	2,357
(iii) On-balance sheet outstanding at the reporting date		
Advances to customers	9	10
Deposits from customers	1,643	2,200
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	—	428

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Key management personnel *(Continued)*

(v) Emoluments for the year

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 9 is as follows:

	2020	2019
Short-term employee benefits	33	38
Post-employment benefits	1	1
Equity compensation benefits	10	13
	44	52

(f) Loans to directors

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

	2020	2019
Aggregate amount of relevant loans outstanding at 31st December	2	3
The maximum aggregate amount of relevant loans outstanding during the year	4	8

- (g)** During the year, no expected credit loss (Stage 3) has been made in respect of the above advances to related parties (2019: nil).

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

The following notes present information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risks, and management of capital.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has, through its Risk Management Committee, delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chief Executive.

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's Credit Policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The Credit Policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk are laid down in the Group's Credit Policy, which is regularly reviewed and approved by the Credit Committee. The Credit Policy covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

- Loans and Advances

The Group adopt "Policy & Procedures for Loan Classification" based on HKMA guideline. 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 uses internal rating models and their parameters — probability of default (PD), loss given default (LGD) and exposure at default (EAD) for credit risk management and assessment of impairment allowances, whenever applicable. The development, validation, application and performance monitoring of rating models are governed by the relevant Model Risk Management framework.

- Treasury products

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated.

34. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

(i) Corporate credit risk

Corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. Large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The Credit Policies promotes early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value, high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and market practices.

(iii) Credit risk for treasury transactions

Credit risk of counterparties of the Group's treasury transactions is managed in the same manner as the Group manages its corporate lending risk. The Group assesses and assigns an internal risk grading to the counterparties and sets individual counterparty limits.

There is in place policy for managing and mitigating counterparty credit risk. Credit risk mitigation includes entering master netting agreements and other collateral arrangements with counterparties.

(iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risks involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(v) Master netting arrangements (Continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2020					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Cash collateral received	Net amount
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	–	–	–	–	–
Positive fair values of derivative financial instruments	6,677	–	6,677	(585)	(188)	5,904
Interest receivable	9	(4)	5	–	–	5
	6,686	(4)	6,682	(585)	(188)	5,909

	2020					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Cash collateral pledged	Net amount
Financial liabilities						
Deposits from banks	6,658	–	6,658	(6,658)	–	–
Amounts due to ultimate holding company and fellow subsidiaries	–	–	–	–	–	–
Deposits from customers	2	–	2	(2)	–	–
Negative fair values of derivative financial instruments	6,580	–	6,580	(585)	(563)	5,432
Interest payable	61	(4)	57	–	–	57
	13,301	(4)	13,297	(7,245)	(563)	5,489

34. MANAGEMENT OF RISKS (Continued)

(a) Credit risk management (Continued)

(v) Master netting arrangements (Continued)

2019						
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	918	–	918	(918)	–	–
Positive fair values of derivative financial instruments	3,708	–	3,708	(234)	(97)	3,377
Interest receivable	53	(35)	18	–	–	18
	4,679	(35)	4,644	(1,152)	(97)	3,395

2019						
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
Financial liabilities						
Deposits from banks	53	–	53	(53)	–	–
Amounts due to ultimate holding company and fellow subsidiaries	918	–	918	(918)	–	–
Deposits from customers	100	–	100	(100)	–	–
Negative fair values of derivative financial instruments	3,770	–	3,770	(234)	283	3,819
Interest payable	82	(35)	47	–	–	47
	4,923	(35)	4,888	(1,305)	283	3,866

(vi) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees. The information of the advances to customers analysed by industry sectors and by geographical area is disclosed in note 13(b) of "Notes to the consolidated financial statements" and note (b) of "Unaudited supplementary financial information" respectively.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(vi) **Concentration of credit risk** *(Continued)*

(1) *Maximum exposure*

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

	2020	2019
Cash and balances with banks, central banks and other financial institutions	9,460	9,415
Placements with banks, central banks and other financial institutions	528	2,639
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	6,830	1,135
Trading assets	9,704	5,966
Advances to customers	188,888	189,681
Trade bills	2,744	778
Advances to banks	2,335	1,503
Financial assets measured at fair value through other comprehensive income	79,878	74,131
Financial guarantees and other credit related contingent liabilities	10,900	7,381
Loan commitments and other credit related commitments	42,982	41,682

(2) *Credit quality of loans and advances*

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted on the basis that our associated companies have good credit standing. At 31st December, 2020 and 2019, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	2020	2019
Gross advances to customers		
– neither past due nor impaired	187,151	186,922
– past due but not impaired	1,463	2,501
– impaired (note 13(c))	833	745
	189,447	190,168

of which:

Gross advances to customers		
– Grade 1: Pass	187,748	188,616
– Grade 2: Special mention	866	807

34. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

(vi) Concentration of credit risk *(Continued)*

(2) Credit quality of loans and advances (Continued)

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	2020	2019
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	1,463	2,489
– 6 months or less but over 3 months	–	5
– 1 year or less but over 6 months	–	7
	1,463	2,501

At 31st December, 2020, advances to customers that were past due or impaired had the terms not been renegotiated amounted to HK\$3 million (2019: HK\$6 million) for the Group. These are retained in impaired loans as long as the obligors are able to substantially meet the renegotiated loan repayment terms.

(3) Credit quality of financial assets other than advances to customers, banks and associated companies

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk, and risk gradings are applied to the counterparties with individual counterparty limits set.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(vi) **Concentration of credit risk** *(Continued)*

(3) *Credit quality of financial assets other than advances to customers, banks and associated companies (Continued)*

At the reporting date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

2020				
	Financial assets at fair value through profit or loss	Financial assets at FVOCI	Financial assets at amortised cost	Total
AAA	–	10,617	–	10,617
AA– to AA+	–	6,747	–	6,747
A– to A+	3,034	54,473	–	57,507
BBB to BBB+	–	3,483	–	3,483
Lower than BBB	–	502	–	502
	3,034	75,822	–	78,856
Unrated	–	1,404	–	1,404
	3,034	77,226	–	80,260

2019				
	Financial assets at fair value through profit or loss	Financial assets at FVOCI	Financial assets at amortised cost	Total
AAA	–	9,982	–	9,982
AA– to AA+	–	6,672	–	6,672
A– to A+	1,715	49,355	–	51,070
BBB to BBB+	393	2,743	–	3,136
Lower than BBB	21	563	–	584
	2,129	69,315	–	71,444
Unrated	132	2,875	–	3,007
	2,261	72,190	–	74,451

34. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

(vi) Concentration of credit risk *(Continued)*

(3) Credit quality of financial assets other than advances to customers, banks and associated companies (Continued)

Overdue debt securities of HK\$30 million are included in "Financial assets measured at fair value through other comprehensive income" for the Group as at 31st December, 2020 (2019: nil).

Included in "Other assets" of the Group as at 31st December, 2020 and 31st December, 2019, there are no receivables which are overdue.

(4) 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 for credit risk mitigation.

The Group adopts prudent valuation practices for 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 properties;
- Other pledge/legal charge over assets and cash deposits, and guarantees duly registered (where applicable);
- Commercial properties as collateral against loans to associated companies;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements; 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.

Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management *(Continued)*

(vi) Concentration of credit risk *(Continued)*

(4) Collateral and other credit enhancements *(Continued)*

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	2020	2019
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	4,486	7,107

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 12 to 15 and the geographical concentration of the Group's assets is disclosed in note (b) of "Unaudited supplementary financial information".

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, statement of financial position structure, and the cash flow profiles of its on-and off-balance sheet obligation. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio and core funding ratio of 37.9% and 132.2% respectively in 2020 (2019: 38.7% of LMR; 128.6% of CFR), which are well above the statutory requirement of 25% and 75% respectively. The liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee ("RMC"), ALCO, Funding Strategy Committee, Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

Liquidity is managed on a day-to-day basis by the Treasurer under the direction of ALCO. ALCO, which comprises personnel from senior management, treasury function, risk management, financial management and business areas that could affect liquidity risk, is responsible for overseeing liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, and is responsible for maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

34. MANAGEMENT OF RISKS *(Continued)*

(b) Liquidity risk management *(Continued)*

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Wholesale Banking Division are responsible for maintaining customer deposits as well as advising their funding needs to the Treasury Division. The heads of business units provide the latest information to the ALCO on material customer deposits balance movements and strategy to tap deposits.

To cater for funding requirements in the ordinary course of business, sufficient liquid assets are held and access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflows. The Group also performs regular stress tests which include an institution-specific crisis scenario, a general market wide crisis scenario and a combined scenario on its liquidity positions to ensure adequate liquidity is maintained at all times.

The Treasury Division acts in accordance with the Liquidity Asset Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushions. The objective of the Liquidity Portfolio Framework is to ensure that the Group can meet its obligations when they fall due in normal circumstances, and an adequate stock of high quality liquid assets in the portfolio could provide a safety cushion in the event of a funding crisis.

Due to the close proximity of the three operating regions in Hong Kong, China and Macau, the Group adopts a centralised approach to manage liquidity and funding for both domestic and overseas subsidiaries. At the next granular level, such as branches and sub-branches, the overseas subsidiaries take responsibility for managing their funding arrangements in relation to the use and application of funds. The Risk Management Division provides a consolidated picture to the Group's senior management.

The identification of liquidity risk depends first and foremost on its ability to accurately measure net funding requirements along different time horizons of its cash-flow projections. Setting up liquidity risk tolerance, including the quality and mixture of liquid asset holdings, maturity or currency mismatches and concentration of funding as well as stress testing are performed to facilitate liquidity risk control within the liquidity management framework.

Commensurate with the Group's business size, structure and complexity, the Group sets targets for the critical liquidity risk indicators for monitoring and controlling liquidity risk exposures.

The Group adopts a range of liquidity metrics to manage its liquidity position, namely liquidity maintenance ratios, core funding ratios, loan to deposit ratios, etc. Those liquidity indicators are subject to ALCO's review on a regular basis against the targets.

The maintenance of liquidity maintenance ratio serves the purpose of addressing short-term liquidity stability. The core funding ratios give a clear picture of the Group's medium-term liquidity profile. A core funding ratio is a percentage of the amount of the Group's "available core funding" to the amount of its "required core funding" as defined by the Banking (Liquidity) Rules.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(b) Liquidity risk management *(Continued)*

Based on the projection of future cash flows under normal and stressed conditions over different time horizons the Group identifies potential funding mismatches by comparing against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

Stress tests for liquidity risk management are designed to assess the Group's ability to generate sufficient liquidity from assets and liabilities aspects in meeting funding needs under adverse conditions. The scenarios cover crisis under institution specific, general market wide and combined basis. Assumptions are subject to regular review by the ALCO to ensure the effectiveness of the stress testing process. Stress tests are performed regularly at the individual major entity level. The impact is further analysed on the consolidated group-wide level.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by the ALCO to ensure that it remains robust over time. Any revision will be approved by the Board of Directors. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger the contingency funding plan.

34. MANAGEMENT OF RISKS *(Continued)*

(b) Liquidity risk management *(Continued)*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for: all non-derivative financial liabilities, and net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

	2020					Over 5 years	Undated	Gross cash outflow
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years			
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	388	9,880	17	1	6	-	-	10,292
Amounts due to ultimate holding company and fellow subsidiaries	473	984	3,370	4,238	689	-	-	9,754
Deposits from customers	128,954	42,149	28,780	15,815	2,073	-	-	217,771
Certificates of deposit and fixed rate note issued	-	4,003	9,225	4,234	220	-	-	17,682
Other liabilities	-	2,088	728	236	778	83	817	4,730
	129,815	59,104	42,120	24,524	3,766	83	817	260,229
Unrecognised loan commitments	16,151	750	1,705	19,155	5,147	74	-	42,982
Financial guarantees and other credit related contingent liabilities	584	3,822	2,036	3,334	1,124	-	-	10,900
	16,735	4,572	3,741	22,489	6,271	74	-	53,882
Derivative cash flows								
Derivative financial instruments settled on net basis	-	10	26	103	228	-	-	367
Derivative financial instruments settled on a gross basis								
- total outflow	-	14,150	2,436	6,356	1,076	-	-	24,018
- total inflow	-	(14,072)	(2,554)	(6,542)	(1,126)	-	-	(24,294)
	-	78	(118)	(186)	(50)	-	-	(276)

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS (Continued)

(b) Liquidity risk management (Continued)

			2019					
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	365	8,671	13	1	–	–	–	9,050
Amounts due to ultimate holding company and fellow subsidiaries	448	980	6,394	3,455	1,171	–	–	12,448
Deposits from customers	98,966	61,161	33,357	14,297	2,466	–	–	210,247
Certificates of deposit and fixed rate note issued	–	2,484	6,642	2,433	2,762	–	–	14,321
Other liabilities	–	2,488	886	154	391	39	647	4,605
	99,779	75,784	47,292	20,340	6,790	39	647	250,671
Unrecognised loan commitments	16,994	1,099	1,926	15,291	5,767	682	–	41,759
Financial guarantees and other credit related contingent liabilities	378	2,469	1,794	2,071	692	–	–	7,404
	17,372	3,568	3,720	17,362	6,459	682	–	49,163
Derivative cash flows								
Derivative financial instruments settled on net basis	–	7	40	54	108	5	–	214
Derivative financial instruments settled on a gross basis								
– total outflow	–	15,979	5,183	1,612	2	–	–	22,776
– total inflow	–	(16,025)	(5,211)	(1,666)	(2)	–	–	(22,904)
	–	(46)	(28)	(54)	–	–	–	(128)

Details of the analysis on the Group's material assets and liabilities categorised into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date are set out in note 27.

34. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management

Market risk is the risk of loss of income or market value mainly due to market fluctuations in interest rates, foreign exchange rates, credit spreads, equity and commodity prices or changes in volatility or correlations of these indicators.

The Group is exposed to market risk from its trading, client servicing and balance sheet management activities. The Group's market risk management strategy and market risk limits are established with reference to the Group's risk appetite and business strategies, taking into account macroeconomic and market conditions. Market risk limits are subject to regular review.

The board level RMC reviews and approves the Group's framework and limits for the management of market risks and trading authorities. The ALCO is the senior management committee that supports the RMC in monitoring market risk. The ALCO oversees the market risk management objectives and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems and internal controls. The ALCO is chaired by the Chief Executive and supported by the Market Risk & Asset Liability Management ("MRM") and Treasury Financial Control ("TFC") units. MRM is an independent risk-control unit responsible for operationalising the market risk management framework to support business growth while ensuring adequate risk control and oversight.

Market risk management is a shared responsibility. Business units are responsible for proactively managing risk within their approved trading strategies and investment mandates, while MRM acts as the independent monitoring unit to ensure sound governance. The identification, measurement, monitoring, control and reporting of key risk management activities are regularly reviewed by MRM and the ALCO to ensure effective risk management under prevailing market conditions.

Risk identification is addressed via our internal New Product Approval Process ("NPAP") at product inception. Market risk is also identified by our risk managers from their ongoing interactions with the business units.

Value-At-Risk ("VaR"), as a key market risk measure for the Group's trading activities, is a component of aggregate market risk appetite. VaR is measured by its individual market risk components, namely interest rate risk, foreign exchange risk, equity risk and credit spread risk. Our VaR model is based on a historical simulation at a 99% confidence level, and over a one day holding period. As VaR is a statistical measure based on historical market fluctuations, past changes in market risk factors may not accurately predict forward looking market conditions all the time. Under the defined confidence threshold, losses on a single trading day may exceed VaR, on average, once every 100 days. To ensure the continued integrity of the VaR model, we regularly back-test the VaR estimates against actual daily trading P&Ls and theoretical P&Ls to confirm that the VaR model does not underestimate market risk exposures.

Present Value of a Basis Point ("PV01"), which measures the change in value of interest rate sensitive exposures resulting from a one basis point change across the entire yield curve, is also an important measure monitored on a daily basis. Other than VaR and PV01, other risk measurements used include notional positions, Profit & Loss ("P&L") for One Basis Point Move in Credit Spreads ("CS01") and derivative greeks for specific exposure types.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management *(Continued)*

We perform stress testing and scenario analysis to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. The stress scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Group's trading activities and risk profile as well as prevailing and forecast economic conditions. These analyses will help determine if potential losses from such extreme market conditions are within the Group's risk triggers.

(i) Managing interest rate benchmark reform and associated risks

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some IBORs with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

The RMC, with support of a designated Steering Committee chaired by Chief Risk Officer, North Asia, monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The Steering Committee reports to the Bank's RMC quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

Derivatives

The Group holds interest rate swaps and cross currency swaps for risk management purposes which are designated in fair value and cash flow hedging relationships. The interest rate swaps and cross currency swaps have floating legs that are indexed to USD LIBOR. The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

Hedge accounting

The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 31st December, 2020. The Group's hedged items and hedging instruments continue to be indexed to USD LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The Group's USD LIBOR cash flow hedging relationships extend beyond the anticipated cessation date for USD LIBOR. The Group expects that USD LIBOR will be discontinued and replaced by alternative nearly risk-free rates (RFRs) after the end of 2021. However, there is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship. The Group applies the amendments to HKFRS 9 to those hedging relationships directly affected by IBOR reform.

34. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(i) **Managing interest rate benchmark reform and associated risks** *(Continued)*

Hedge accounting (Continued)

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instruments indexed to USD LIBOR using available quoted market rates for LIBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in sterling LIBOR on a similar basis.

Please see note 30 for the details of the Group's hedging transactions, including the nominal amount of the hedging instruments in those hedging relationships.

(ii) **Interest rate risk**

The Group's interest rate exposures arise from lending, deposit-taking and treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both the banking book and trading book. It also relates to positions from non-interest-bearing assets and liabilities including shareholder's funds and current accounts, as well as from interest-bearing assets and liabilities. The Group's interest rate risk is monitored by the ALCO on limits approved by the Board, including product limit and PV01 limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity in a simplified scenario sets out below is for risk management reporting. Actual changes in the Group's profit before tax resulting from a change in interest rates may differ from the result of the sensitivity analysis. The effect on interest rate sensitive financial instruments and interest rate swaps has been included in this calculation. The analysis is performed on the same basis as 2019.

	2020	2019
	Increase/ (decrease) in Group's profit before tax	Increase/ (decrease) in Group's profit before tax
Increase in 100 basis points	212	108
Decrease in 100 basis points	(212)	(108)

Structural interest rate risk arises primarily from the deployment of non-interest-bearing assets and liabilities, including shareholder's funds and current accounts, as well as from interest-bearing assets and liabilities. Structural interest rate risk is monitored by the ALCO.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(ii) **Interest rate risk** *(Continued)*

The following tables indicate the expected next repricing dates for the assets and liabilities at the reporting date.

		2020				
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	9,460	8,928	–	–	–	532
Placements with banks, central banks and other financial institutions	528	528	–	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	6,830	6,348	12	–	–	470
Trading assets	9,704	–	47	2,699	287	6,671
Advances to customers and other accounts	195,712	171,889	12,884	8,016	63	2,860
Advances to banks	2,335	859	1,476	–	–	–
Financial assets measured at fair value through other comprehensive income	79,899	19,746	20,851	33,545	3,084	2,673
Other assets	7,703	–	–	–	–	7,703
Total assets	312,171	208,298	35,270	44,260	3,434	20,909
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	10,264	10,237	1	–	–	26
Amounts due to ultimate holding company and fellow subsidiaries	9,740	4,815	3,953	856	–	116
Deposits from customers	217,414	184,697	15,669	2,038	–	15,010
Certificates of deposit and fixed rate notes issued	17,644	13,219	4,225	200	–	–
Trading liabilities	5,895	–	–	–	–	5,895
Lease liabilities	220	–	–	–	–	220
Other liabilities	4,784	30	–	–	–	4,754
Total liabilities	265,961	212,998	23,848	3,094	–	26,021
Derivatives (in the banking book) net (short)/long position (notional amount)	–	8,247	445	(7,322)	(1,370)	–
Interest rate sensitivity gap	46,210	3,547	11,867	33,844	2,064	(5,112)

34. MANAGEMENT OF RISKS (Continued)

(c) Market risk management (Continued)

(ii) Interest rate risk (Continued)

	2019					
		Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing	
	Total	Within 3 months				
Assets						
Cash and balances with banks, central banks and other financial institutions	9,415	5,658	–	–	–	3,757
Placements with banks, central banks and other financial institutions	2,639	2,040	599	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	1,135	796	10	–	–	329
Trading assets	5,966	148	261	1,586	266	3,705
Advances to customers and other accounts	194,276	169,584	11,763	8,853	140	3,936
Advances to banks	1,503	211	1,292	–	–	–
Financial assets measured at fair value through other comprehensive income	74,144	20,397	20,464	29,298	2,031	1,954
Other assets	8,057	–	–	–	–	8,057
Total assets	297,135	198,834	34,389	39,737	2,437	21,738
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	9,024	8,973	1	–	–	50
Amounts due to ultimate holding company and fellow subsidiaries	12,398	10,523	331	–	–	1,544
Deposits from customers	209,528	174,716	18,420	2,395	–	13,997
Certificates of deposit and fixed rate notes issued	14,254	11,525	–	2,729	–	–
Trading liabilities	3,408	–	–	–	–	3,408
Lease liabilities	231	–	–	–	–	231
Other liabilities	5,050	30	–	–	–	5,020
Total liabilities	253,893	205,767	18,752	5,124	–	24,250
Derivatives (in the banking book) net (short)/long position (notional amount)	(556)	1,058	6,103	(6,476)	(1,241)	–
Interest rate sensitivity gap	42,686	(5,875)	21,740	28,137	1,196	(2,512)

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(ii) **Interest rate risk** *(Continued)*

The following table indicates the effective interest rates for the last month of the year:

	2020 %	2019 %
Placements with banks, central banks and other financial institutions	0.64	1.97
Advances to customers and trade bills	2.42	3.37
Debt securities	2.19	2.90
	2.24	3.17
Deposits and balances of banks, central banks and other financial institutions	1.13	2.14
Deposits from customers	0.58	1.46
Certificates of deposit issued	0.50	1.91
Fixed rate note issued	4.10	4.12
	0.65	1.59

(iii) **Currency risk**

The Group's foreign exchange positions, which arise from foreign exchange dealings, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALCO. All foreign exchange positions are managed by the ALCO within the limits approved by the Board.

	2020									
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	82,883	62,912	5,063	1,001	58	5,136	344	251	13,331	171,901
Spot liabilities	(65,933)	(59,566)	(1,822)	(2,378)	(1,833)	(7,323)	(291)	(2,410)	(13,310)	(156,379)
Forward purchases	110,621	99,410	53	1,550	1,787	2,452	1,952	2,212	-	220,783
Forward sales	(127,611)	(103,056)	(3,289)	(164)	(1)	(224)	(2,010)	(9)	-	(236,533)
Net option positions	(2,759)	2,759	-	-	-	-	-	-	-	-
Net long/(short) positions	(2,799)	2,459	5	9	11	41	(5)	44	21	(228)

34. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(iii) **Currency risk** *(Continued)*

	2019									
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	75,309	48,259	2,577	956	68	6,362	320	214	13,265	148,143
Spot liabilities	(59,318)	(49,146)	(1,288)	(1,676)	(1,966)	(8,008)	(329)	(2,658)	(13,422)	(139,209)
Forward purchases	138,882	128,286	1,445	1,937	1,900	2,193	153	2,503	–	278,031
Forward sales	(153,060)	(129,322)	(2,721)	(1,206)	(5)	(505)	(150)	(34)	–	(287,160)
Net option positions	(3,568)	3,568	–	–	–	–	–	–	–	–
Net long/(short) positions	(1,755)	1,645	13	11	(3)	42	(6)	25	(157)	(195)

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and includes structural assets or liabilities as follows:

- investments in overseas subsidiaries and related companies

	2020				2019			
	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	3,493	8,156	1,520	13,169	3,472	7,250	1,526	12,248

(iv) **Equity risk**

The Group's equities exposures in 2020 and 2019 are mainly in long-term equity investments which are reported as "Financial assets measured at fair value through other comprehensive income" set out in note 15 separately. These are subject to risk management control procedures and other market risk regimes.

Notes to the Consolidated Financial Statements

34. MANAGEMENT OF RISKS *(Continued)*

(d) Operational risk management

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

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior management of the Group.

The framework consists of governing policies with control measures to ascertain compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior management. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. Internal Audit division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

(e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital ratios. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by overseas regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the years ended 31st December, 2020 and 2019 and are well above the minimum required ratios set by the HKMA.

The capital ratios as at 31st December, 2020 are computed on a consolidated basis including 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 ("the Capital Rules").

34. MANAGEMENT OF RISKS *(Continued)*

(f) Transfers of financial assets

As of 31st December, 2020, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK\$7,185 million (2019: HK\$5,201 million) which are subject to simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities sold under repurchase agreements by nature are as follows:

	2020	2019
Financial assets measured at fair value through other comprehensive income	7,185	5,201
	7,185	5,201

The consideration received under these repurchase agreements for the Group totaling HK\$6,660 million (2019: HK\$4,758 million) was reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2020 and 31st December, 2019. The details are as follows:

	2020	2019
Deposits and balances of banks, central banks and other financial institutions	6,658	3,740
Amounts due to ultimate holding company and fellow subsidiaries	–	918
Deposits from customers	2	100
	6,660	4,758

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

As at 31st December, 2020 and 31st December, 2019, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

Notes to the Consolidated Financial Statements

35. STAFF BENEFITS

(a) Retirement schemes

	2020	2019
Retirement benefit costs (note 5(g))	96	95

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the statement of profit or loss as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

(b) Equity compensation benefits

(i) Share Option Scheme

The Group has ceased granting share options under OCBC Share Option Scheme 2001 ("2001 Scheme") effective from financial year 2018 remuneration. Share options granted in prior years continue to be outstanding until the options lapse or are exercised by the recipients. 2001 Scheme was implemented in 2001 and was extended for another 10 years from 2011 to 2021. Executives of the Group ranked Manager and above and non-executive directors of the Group are eligible to participate in this scheme. OCBC will either issue new shares or transfer treasury shares to the participants upon the exercise of their options. The acquisition prices for these grants were equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over the five consecutive trading days immediately prior to the respective dates of grant.

Movements in the number of options and fair value are as follows:

	2020		2019	
	Number of options	Average price	Number of options	Average price
	(in Singapore \$)	(in Singapore \$)	(in Singapore \$)	(in Singapore \$)
At 1st January	2,656,510	1.1473	2,800,086	1.1368
Exercised during the year	(307,640)	0.8952	(141,293)	0.9252
Lapsed during the year	(17,551)	2.1119	(2,283)	2.0469
Granted and accepted	—	—	—	—
At 31st December	2,331,319	1.1733	2,656,510	1.1473
Exercisable at the end of the year	2,165,215	1.1062	1,995,875	1.0358

35. STAFF BENEFITS *(Continued)*

(b) Equity compensation benefits *(Continued)*

(i) Share Option Scheme *(Continued)*

At 31st December, 2020, the weighted average remaining contractual life of outstanding share options was 5.8 years (2019: 6.7 years). The aggregate outstanding number of options held by directors of the Bank was 439,157 (2019: 775,619). The accounting treatment of share-based compensation plan is set out in note 2(v).

(ii) Employee Share Purchase Plan

The OCBC Employee Share Purchase Plan ("ESP Plan"), which was implemented in 2004, was extended for another 10 years from 2014 to 2024, with the approval of shareholders. Employees of the Group who have attained the age of 21 years and been employed for not less than six months are eligible to participate in the ESP Plan. In June 2020, the Bank launched the offering of ESP Plan for the eligible employees of the Group, which commenced on 1st July, 2020 and expire on 30th June, 2022. Under the offering, the Bank granted right to acquire 624,448 (2019: 494,804) ordinary shares in the OCBC pursuant to the ESP Plan. The acquisition price is equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over five consecutive trading days immediately preceding the price fixing date. The fair value of the rights is determined using the binominal valuation model. Significant inputs to the valuation model are set out below:

	2020	2019
Acquisition price (in Singapore \$)	8.98	11.32
Share price (in Singapore \$)	9.24	10.78
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	24.62	17.57
Risk-free rate based on 2-year swap rate (%)	0.31	1.72
Expected dividend yield (%)	5.19	3.62

Movements in the number of acquisition rights of the ESP Plan are as follows:

	2020		2019	
	Number of acquisition rights	Average price (in Singapore \$)	Number of acquisition rights	Average price (in Singapore \$)
At 1st January	489,448	11.310	201,828	11.246
Exercised and conversion upon expiry	(65,912)	8.798	(79,257)	11.140
Forfeited	(229,040)	10.927	(127,927)	11.354
Subscription	624,448	8.980	494,804	11.320
At 31st December	818,944	9.843	489,448	11.310

Notes to the Consolidated Financial Statements

35. STAFF BENEFITS *(Continued)*

(b) Equity compensation benefits (Continued)

(ii) Employee Share Purchase Plan *(Continued)*

At 31st December, 2020, the weighted average remaining contractual life of outstanding acquisition rights was 1.1 years (2019: 1.1 years). An executive director of the Bank did not hold any acquisition rights in 2019 and 2020. The accounting treatment of share-based compensation plan is set out in note 2(v).

(iii) OCBC Deferred Share Plan

OCBC implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award programme extended to executives of the Group at the absolute discretion of the Remuneration Committee. Among the ordinary shares granted, 50% vests at 2 years from the date of grant and the remaining 50% vests at 3 years from the date of grant.

Awards of an aggregate of 574,951 (2019: 585,983) ordinary shares of OCBC (including awards of 83,368 (2019: 169,566) ordinary shares of OCBC granted to directors of the Group) were granted by OCBC to eligible executives under the DSP during the financial year ended 31st December, 2020. The fair value of the shares at grant date was Singapore \$5.5 million (2019: Singapore \$6 million). In addition, awards are adjusted following the declarations of final dividend and interim dividend, if any.

The accounting treatment of share-based compensation plan is set out in note 2(v).

36. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at FVTPL, and financial instruments classified as measured at FVOCI.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values at the end of the reporting period on a recurring basis using the following fair value hierarchy as defined in HKFRS 13, *Fair value measurement* that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and for which unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

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

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on “no-arbitrage” principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. “Not observable” does not mean there is absolutely no market data available, but rather that there is little or no current market data available from which to determine the level at which an arm’s length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. Availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models as inputs to a fair value measurement. These models are usually developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, the ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

Notes to the Consolidated Financial Statements

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

The table below analyses financial instruments measured at fair value at the reporting date according to the level in the fair value hierarchy into which they are categorised:

	2020			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	2,294	–	–	2,294
– Other debt securities	740	–	–	740
– Positive fair values of derivative financial instruments held for trading	2	6,665	3	6,670
	3,036	6,665	3	9,704
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	7	–	7
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	15,703	2,269	–	17,972
– Certificates of deposit held	3,223	7,113	–	10,336
– Other debt securities	42,542	6,376	–	48,918
– Equity securities	–	1	2,672	2,673
	61,468	15,759	2,672	79,899
	64,504	22,431	2,675	89,610
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	2	5,893	–	5,895
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	685	–	685
	2	6,578	–	6,580

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

		2019		
	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Trading assets				
– Treasury bills	798	–	–	798
– Other debt securities	1,346	117	–	1,463
– Positive fair values of derivative financial instruments held for trading	1	3,698	6	3,705
	2,145	3,815	6	5,966
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	3	–	3
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	12,915	2,020	–	14,935
– Certificates of deposit held	–	11,984	–	11,984
– Other debt securities	38,678	6,593	–	45,271
– Equity securities	–	1	1,953	1,954
	51,593	20,598	1,953	74,144
	53,738	24,416	1,959	80,113
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	1	3,406	1	3,408
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	362	–	362
	1	3,768	1	3,770

During the year ended 31st December, 2020, there were no material transfers between Level 1 and Level 2 (2019: nil). During the year ended 31st December, 2020, there were no transfer between Level 1 and 2 into Level 3 (2019: transfer of HK\$5 million). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Consolidated Financial Statements

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

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

(i) **Valuation of financial instruments with significant unobservable inputs**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2020		
	Financial assets measured at fair value through other comprehensive income – Equity securities	Net fair values of derivative financial instrument held for trading	Total
Assets/(liabilities)			
At 1st January	1,954	5	1,959
Purchases	–	–	–
Sales	–	–	–
Settlements	–	–	–
Transfers	–	–	–
Changes in fair value recognised in the consolidated income statement	–	(2)	(2)
Changes in fair value recognised in the consolidated statement of other comprehensive income	718	–	718
At 31st December	2,672	3	2,675
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	718	–	718
Total gains or losses for the year included in the consolidated statement of profit or loss for assets held at the reporting date			
– Net trading income	–	(2)	(2)
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

(i) Valuation of financial instruments with significant unobservable inputs (Continued)

	2019		
	Financial assets measured at fair value through other comprehensive income – Equity securities	Net fair values of derivative financial instrument held for trading	Total
Assets/(liabilities)			
At 1st January	1,142	–	1,142
Purchases	–	–	–
Sales	–	–	–
Settlements	–	–	–
Transfers	–	5	5
Changes in fair value recognised in the consolidated income statement	–	–	–
Changes in fair value recognised in the consolidated statement of other comprehensive income	812	–	812
At 31st December	1,954	5	1,959
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	812	–	812
Total gains or losses for the year included in the consolidated statement of profit or loss for assets held at the reporting date			
– Net trading income	–	–	–
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–

Notes to the Consolidated Financial Statements

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

(i) Valuation of financial instruments with significant unobservable inputs (Continued)

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range
Unlisted equity securities measured at fair value through other comprehensive income	Discounted cash flow model	Discount rates	10.08%–17.30% (2019: 7.33%–13.42%)
	Market-comparable approach	P/E ratios	33.37%–59.64% (2019: 15.33%–38.83%)
		Marketability discount	50.00% (2019: 50.00%)
	Embedded value approach	Risk discount rate	8.50%–15.00% (2019: 8.50%)
		Expected investment return	2.50%–3.00% (2019: 3.00%)

The fair value of unlisted financial assets measured at fair value through other comprehensive income is determined using the discounted cash flow model and the significant unobservable inputs used in the fair value measurement are forecasted cash flows and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate.

The fair value of derivative financial instruments held for trading is determined based on similar methodology as that of derivative financial instruments classified as level 2 in the fair value hierarchy with significant unobservable inputs being the forecasted optimum rate of a derivative contract adopted for the fair value measurement of the optionality component to exercise partial take-up right of the derivative contract.

(ii) Effect of changes in significant non-observable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

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

(ii) **Effect of changes in significant non-observable assumptions to reasonably possible alternative assumptions** *(Continued)*

	2020			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading assets				
– Positive fair values of derivative financial instruments held for trading purpose	–	–	–	–
	–	–	–	–
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	267	(267)
	–	–	267	(267)
	2019			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading assets				
– Positive fair values of derivative financial instruments held for trading purpose	1	(1)	–	–
	1	(1)	–	–
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	195	(195)
	–	–	195	(195)

Notes to the Consolidated Financial Statements

36. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2020 and 31st December, 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

			2020		
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	15,268	15,304	–	15,304	–
Fixed rate note issued at amortised cost	2,376	2,392	–	2,392	–
			2019		
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	12,025	12,049	–	12,049	–
Fixed rate note issued at amortised cost	2,229	2,255	–	2,255	–

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not presented above.

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.
- (ii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from both the carrying amount and fair value.
- (iv) The fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

37. BANK-LEVEL STATEMENT OF FINANCIAL POSITION

	2020	2019
ASSETS		
Cash and balances with banks, central banks and other financial institutions	2,466	2,194
Placements with banks, central banks and other financial institutions	528	1,303
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	4,615	509
Trading assets	1,157	1,662
Advances to customers and other accounts	115,693	114,639
Amounts due from subsidiaries	23,227	25,875
Financial assets measured at fair value through other comprehensive income	52,034	49,604
Investments in subsidiaries	8,251	8,251
Investments in associated companies	332	332
Tangible fixed assets		
– Investment properties	116	–
– Other properties, plants and equipment	4,013	4,313
Assets as held for sale	1	–
Goodwill	847	847
Current tax recoverable	11	–
Deferred tax assets	–	3
Total assets	213,291	209,532
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	550	3,019
Amounts due to ultimate holding company and fellow subsidiaries	546	3,645
Deposits from customers	158,119	152,867
Certificates of deposit issued	12,944	9,611
Trading liabilities	642	215
Lease liabilities	80	88
Current tax payable	–	387
Deferred tax liabilities	27	–
Other accounts and provisions	1,904	2,062
Amounts due to subsidiaries	3,253	4,042
Total liabilities	178,065	175,936
Share capital	7,308	7,308
Reserves	24,918	23,288
Perpetual capital securities issued	3,000	3,000
Total equity	35,226	33,596
Total equity and liabilities	213,291	209,532

Approved and authorised for issue by the Board of Directors on 19th April, 2021.

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

Notes to the Consolidated Financial Statements

38. ULTIMATE CONTROLLING PARTY

At 31st December, 2020, the directors consider the ultimate controlling party of the Bank to be OCBC, which is incorporated in Singapore.

39. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Board recommended a final dividend. Further details are disclosed in Note 8(a).

40. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform current year's presentation.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31st December, 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1st January, 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1st January, 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1st January, 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1st January, 2022

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2021.

Unaudited Supplementary Financial Information

(Expressed in millions of Hong Kong dollars unless otherwise stated)

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(A) CAPITAL AND LIQUIDITY RATIOS

(i) Capital ratios

	2020	2019
Common Equity Tier 1 capital ratio as at 31st December	16.7%	15.4%
Tier 1 capital ratio as at 31st December	18.0%	16.9%
Total capital ratio as at 31st December	19.4%	18.7%
Capital conservation buffer ratio	2.500%	2.500%
Countercyclical capital buffer ratio	0.545%	1.225%
Common Equity Tier 1 capital	36,477	32,269
Tier 1 capital	39,477	35,269
Total capital	42,558	39,184
Risk weighted assets	218,812	209,152

As mentioned in note 34(e) of "Notes to the consolidated financial statements" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

The capital ratios are computed on a consolidated basis including 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.

In view of the Capital Rules, the Group has adopted the "basic indicator approach" for the calculation of the operational risk and the "standardised (market risk) approach" for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the "standardised (credit risk) approach" as of 31st December, 2020 and 31st December, 2019.

Unaudited Supplementary Financial Information

(A) CAPITAL AND LIQUIDITY RATIOS *(Continued)*

(i) *Capital ratios (Continued)*

In calculating the capital ratios of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation. These are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

Subsidiaries	Principal activities	2020		2019	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Liquidated in 2019	–	–	–	–
C.F. Finance Company Limited	Liquidated in 2019	–	–	–	–
Chekiang First Bank (Nominees) Limited	Inactive/Nominee Services	–	–	–	–
Chekiang First Bank (Trustees) Limited	Undergoing voluntary liquidation	4	4	4	4
Chekiang First, Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
Chekiang First Securities Company Limited	Liquidated in 2019	–	–	–	–
Cyber Wing Hang Limited	Liquidated in 2019	–	–	–	–
Data Processing Services Limited	Liquidated in 2019	–	–	–	–
Honfirst Investment Limited	Futures Trading	17	17	17	17
Honfirst Property Agency Limited	Liquidated in 2019	–	–	–	–
OCBC Wing Hang (Nominees) Limited	Inactive/Nominee Services	–	–	–	–
OCBC Wing Hang (Trustee) Limited	Inactive	4	4	4	4
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	125	120	114	103
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	176	123	143	91
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	916	342	684	326

As at 31st December, 2020, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, but the method of consolidation differs.

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

There are no relevant capital shortfalls in any of the Group's subsidiaries as at 31st December, 2020 (2019: nil) which are not included in the Group's consolidation for regulatory purposes.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

(A) CAPITAL AND LIQUIDITY RATIOS *(Continued)*

(ii) Average liquidity maintenance ratio and core funding ratio

	2020	2019
Average liquidity maintenance ratio for the year	37.9%	38.7%
Average core funding ratio for the year	132.2%	128.6%

The average liquidity maintenance ratio and core funding ratio for 2020 include the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation has been agreed with the Hong Kong Monetary Authority ("HKMA"). Liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

(B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	Gross advances to customers	Impaired advances to customers	2020			
			Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers	Expected credit loss written off during the year
Hong Kong	133,258	430	331	101	305	67
Macau	21,215	26	20	5	29	2
Mainland China	32,905	375	362	28	89	7
Others	2,069	2	2	–	2	–
	189,447	833	715	134	425	76

	Gross advances to customers	Impaired advances to customers	2019			
			Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers	Expected credit loss written off during the year
Hong Kong	134,579	294	179	92	253	63
Macau	21,925	16	11	5	23	5
Mainland China	31,293	431	409	26	81	430
Others	2,371	4	4	1	6	–
	190,168	745	603	124	363	498

Unaudited Supplementary Financial Information

(C) FURTHER ANALYSIS OF ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

The following information concerning further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	2020					
	Gross advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers	Expected credit loss (credited)/ charged to consolidated statement of profit or loss during the year	Expected credit loss written off during the year
Property investment	32,404	20	5	48	(56)	–
Advances for the purchase of other residential properties	36,407	83	–	5	–	–
Advances for use outside Hong Kong						
– Mainland China	35,252	325	16	88	4	10
– Macau	20,591	20	5	29	6	2
	2019					
	Gross advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers	Expected credit loss charged to consolidated statement of profit or loss during the year	Expected credit loss written off during the year
Property investment	30,067	2	2	71	5	–
Advances for the purchase of other residential properties	38,124	37	–	6	2	–
Advances for use outside Hong Kong						
– Mainland China	34,621	371	12	84	293	435
– Macau	21,307	11	5	22	7	5

(D) OVERDUE AND RESCHEDULED ASSETS

(i) *Overdue and rescheduled advances to customers*

	2020		2019	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	48	0.03	91	0.05
– 1 year or less but over 6 months	224	0.12	56	0.03
– Over 1 year	443	0.23	456	0.24
	715	0.38	603	0.32
Covered portion of overdue advances	563		553	
Uncovered portion of overdue advances	152		50	
	715		603	
Current market values of collateral held against covered portion of overdue advances	1,160		1,244	
Expected credit loss (Stage 3) made on overdue advances	115		79	

Collateral held with respect to overdue advances to customers are mainly properties and vehicles.

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

Unaudited Supplementary Financial Information

(D) OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(i) **Overdue and rescheduled advances to customers** *(Continued)*

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2020		2019	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	10	–	6	–

All rescheduled advances to customers are impaired as at 31st December, 2020 and 31st December, 2019.

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2020 and 31st December, 2019.

(ii) **Other overdue assets**

	2020	2019
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	–	–
– 1 year or less but over 6 months	–	–
– Over 1 year	–	–
	–	–

Overdue debt securities of HK\$30 million are included in “Financial assets measured at fair value through other comprehensive income” as at 31st December, 2020 (31st December, 2019: nil).

Included in “Other assets” as at 31st December, 2020 and 31st December, 2019, there are no receivables which are overdue.

(E) DISCLOSURE REQUIREMENTS UNDER THE BANKING (DISCLOSURE) RULES

(i) **Corporate Governance**

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA. The Group has established a number of board committees under the Board of Directors including Audit Committee, Nomination Committee, Risk Management Committee and Remuneration Committee. The compositions and functions of these committees are explained in the “Corporate Governance Report”.

(ii) The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2021 under “Regulatory Disclosure” on the website of the Bank (www.ocbcwhhk.com).

List of Branches

OCBC WING HANG BANK

HONG KONG ISLAND

Main Branch	161 Queen's Road Central
Causeway Bay Branch	443–445 Hennessy Road
Central Branch	G/F, Henley Building, 5 Queen's Road Central
Gloucester Road Branch	Shop 1–3, G/F, Tung Wai Commercial Building, 109–111 Gloucester Road, Wan Chai
Gold & Silver Exchange Branch	1/F, 12–18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15–17 King Kwong Street, Happy Valley
Johnston Road Branch	131–133 Johnston Road, Wanchai
North Point Branch	441–443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
United Centre Branch	Shops 2007–2009, 2/F, United Centre, 95 Queensway, Admiralty
Western Branch	139–141 Des Voeux Road West, Sai Ying Pun
Auto & Equipment Finance	
Main Office	5/F, Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan

KOWLOON

Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Hoi Yuen Road Branch	Unit 01, 22/F, Crocodile Centre, 79 Hoi Yuen Road, Kwun Tong
Kowloon Branch	298 Nathan Road, Jordan
Kowloon City Branch	37 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	22–24 Fu Yan Street, Kwun Tong
Mei Foo Branch	Shop N52, G/F., Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
San Po Kong Branch	G/F, 66–70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Tokwawan Branch	237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui Premier Banking Centre	Shop G3–5, G/F, East Ocean Centre, 98 Granville Road, Tsimshatsui
Whampoa Estate Branch	8–10 Tak Man Street, Whampoa Estate, Hung Hom
Yaumati Branch	507 Nathan Road, Yaumati

List of Branches

OCBC WING HANG BANK *(Continued)*

NEW TERRITORIES

Kwai Chung Branch	Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung
Tai Po Branch	Shop F, 12-26 Tai Wing Lane, Tai Po
Tai Wai Branch	32-34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022-23, Level 1, MCP Central, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shops 1&2, G/F, Man Cheung Mansion, 52-62 Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	Shop 1-3, G/F, 40-54 Castle Peak Road, Yuen Long

MACAU

Banco OCBC Weng Hang, S.A.

Main Branch	241 Avenida de Almeida Ribeiro
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19–21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75–79 Rua Almirante Sergio
Flower City Branch	356–366, Rua de Evora, Edif. Lei Fung, Taipa
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
Fai Chi Kei Branch	Avenida do Conselheiro Borja Nos. 309–315, Mayfair Garden Bloco 5 D-R/C

List of Branches

CHINA

OCBC Wing Hang Bank (China) Limited

SHANGHAI

Main Branch	OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Branch	Unit 307, 3/F, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Century Square Sub-branch	Unit 102, 1/F, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai 200135
Shanghai Hongqiao Sub-branch	1/F, 321 Xianxia Road, Changning District, Shanghai 200336

BEIJING

Beijing Branch	Units 2809–2818, 28/F, Tower B, Gemdale Plaza, No 91, Jianguo Road, Chaoyang District, Beijing 100022
-----------------------	---

CHENGDU

Chengdu Branch	Unit 1, 8, 9 and 10, 31F, No.2 Office Building, Chengdu IFS, No 1, Hong Xing San Duan Road, Jin Jiang District, Chengdu 610021
-----------------------	--

TIANJIN

Tianjin Branch	Unit 7201-7204, 72F, Tianjin World Financial Centre Office Building, No 2, North Da Gu Road, Heping District, Tianjin 300022
-----------------------	--

XIAMEN

Xiamen Branch	2F-3F, No.2 Zhongshan Road, Siming District, Xiamen 361001
----------------------	--

QINGDAO

Qingdao Branch	Unit 2402–2407, No 9 Middle Hong Kong Road, Shinan District, Qingdao 266071
-----------------------	---

CHONGQING

Chongqing Branch	Unit 1–3, 48 Floor, Yingli International Financial Center, No.28, Minquan Road Yuzhong District, Chongqing 400010
-------------------------	---

SHAOXING

Shaoxing Branch	Room 1801 & 1802, Building 1 Zhong Jin Plaza, No.666 North Zhongxing Road, Shaoxing, Zhejiang Province 312000
------------------------	---

CHINA

OCBC Wing Hang Bank (China) Limited (Continued)

SUZHOU

Suzhou Branch Unit 1–3, 12th Floor, No.2 Building, Jinghope Plaza, No.88 Huachi Street, SIP, Suzhou 215027

SHENZHEN

Shenzhen Branch 8/F, 5/F, Unit M02, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen 518008

Shenzhen Fumin Sub-branch Units B07–09, 25–26 G/F & Unit 04, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen 518048

Shenzhen Huaqiang Sub-branch 1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen 518031

Shenzhen Qianhai Sub-branch Unit 3, 5/F, Tower C, China Resources Land Building, No. 9668 Shennan Road, Nanshan District, Shenzhen 518052

GUANGZHOU

Guangzhou Branch Room 2504–2509, Goldlion Digital Network Centre, 138 Tiyu Road East, Guangzhou 510620

Guangzhou Zhujiang New Town Sub-branch Unit 903~904, He Jing International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou 510623

Guangzhou Haizhu Sub-branch Unit 02, 1/F & Rooms 901–902, Vertical City, No.238 Changgang Zhong Road, Haizhu District, Guangzhou 510260

ZHUHAI

Zhuhai Branch Rooms 1501 & 1508, No 5 Yanlord Marina Center Tower, No 1 Qinglv Road South, Xiangzhou District, Zhuhai 519020

FOSHAN

Foshan Sub-branch Room 2001, Mingri Plaza I, Xingui Road, Daliang, Shunde District, Foshan 528300

List of Branches

OCBC WING HANG CREDIT LIMITED

HONG KONG ISLAND

Main Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai
Central Branch	Unit 1202, 12/F., Wing On Centre, 111 Connaught Road Central
North Point Branch	Rooms 1509–10, 15/F., Olympia Plaza, 255 King's Road, North Point
Wanchai Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai

KOWLOON

Kwun Tong Branch	Unit 1104, 11/F., Kwun Tong View, 410 Kwun Tong Road
Prince Edward Branch	Unit Nos. 1114–1116, 11/F., Pioneer Centre, 750 Nathan Road
Tsimshatsui Branch	Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsim Sha Tsui

NEW TERRITORIES

Kwai Fong Branch	Units 1909–1912, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Tsuen Wan Branch	Unit 1521, 15/F., Nan Fung Centre, 264–298 Castle Peak Road, Tsuen Wan
Tai Po Branch	G/F., 7 Kwong Fuk Road, Tai Po
Revolving Credit Centre	14/F., Tai Yau Building, 181 Johnston Road, Wanchai
Mortgage Loan Centre	Unit 1512, 15/F., Telford House, 16 Wang Hoi Road, Kowloon Bay



Registered Office: 161 Queen's Road Central, Hong Kong

