



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
中國工商銀行（亞洲）有限公司
(Incorporated in Hong Kong with limited liability)

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30 JUNE 2021**

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INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021. The condensed consolidated statement of financial position of the Group as at 30 June 2021 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2021 are all unaudited but have been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standards on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), along with certain explanatory notes are set out on pages 4 to 76 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2021 was HK\$3,455 million. This represents a 3.72% increase over the same period last year (first half of 2020: HK\$3,331 million). Return on average assets and return on average equity were 0.75% and 6.21% respectively (first half of 2020: 0.71% and 6.24% respectively).

Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2021 (2020 interim dividend: Nil).

Financial Review

In the first half of 2021, the Group’s consolidated profit attributable to equity holders was HK\$3,455 million, representing an increase of HK\$124 million or 3.72% over HK\$3,331 million achieved for the corresponding period in 2020.

Net interest income decreased by HK\$550 million or 10.49% to HK\$4,694 million. Net fee and commission income increased by HK\$204 million or 19.63% to HK\$1,243 million.

Non-interest income increased by HK\$250 million or 18.50% to HK\$1,601 million from HK\$1,351 million for the corresponding period in 2020. The ratio of non-interest income to total operating income was 25.43%, up by 4.94% compared with the corresponding period in 2020.

Operating expenses decreased by HK\$10 million or 0.53% to HK\$1,879 million, compared with HK\$1,889 million for the corresponding period in 2020. The cost to income ratio was 29.86%, up by 1.22% compared with the corresponding period in 2020.

The net charges for expected credit loss on loans and advances for the period were HK\$582 million, out of which HK\$857 million was made as additional provision for non-credit impaired exposures and HK\$275 million was released as write back for credit-impaired exposures.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$942,428 million as at 30 June 2021, representing an increase of HK\$11,335 million or 1.22% over the financial position as at 31 December 2020.

Customer deposits amounted to HK\$611,080 million as at 30 June 2021 representing an increase of HK\$88,596 million or 16.96%, compared to HK\$522,484 million as at 31 December 2020. Loans and advances also increased by HK\$33,068 million or 6.90% to HK\$512,630 million as at 30 June 2021 compared to HK\$479,562 million as at 31 December 2020.

Total securities investment amounted to HK\$191,324 million as at 30 June 2021, which represents an increase of HK\$4,357 million or 2.33% compared to HK\$186,967 million as at 31 December 2020.

Total certificates of deposit issued decreased by HK\$737 million or 10.46% to HK\$6,309 million as at 30 June 2021, compared to HK\$7,046 million as at 31 December 2020.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 21.67% as at 30 June 2021 from 21.11% as at 31 December 2020. In the first half of 2021, the average liquidity coverage ratio amounted to 209.70% (first half of 2020: 213.26%).

Asset Quality

Under the Bank's prudent risk management policy, the asset quality remained continuously at a satisfactory level. Impaired loans and advances decreased by HK\$1,526 million to HK\$2,896 million as at 30 June 2021, compared with HK\$4,422 million as at 31 December 2020. The impaired loan ratio was 0.56% as at 30 June 2021 (31 December 2020: 0.91%).

As at 30 June 2021, the cumulative loan impairment allowances amounted to HK\$7,514 million (31 December 2020: HK\$7,711 million), which included impairment allowance of HK\$5,698 million for non-credit impaired exposures and impairment allowance of HK\$1,816 million for credit-impaired exposures.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(UNAUDITED)**

	Notes	Unaudited six months ended 30 June 2021 HK\$'000	Unaudited six months ended 30 June 2020 HK\$'000
Interest income	(6)	8,194,101	11,744,233
Interest expense	(6)	(3,500,258)	(6,499,809)
Net interest income	(6)	4,693,843	5,244,424
Fee and commission income	(7)	1,370,892	1,157,053
Fee and commission expense	(7)	(128,223)	(118,435)
Net fee and commission income	(7)	1,242,669	1,038,618
Net trading income	(8)	441,509	338,135
Net loss on financial assets and liabilities at fair value through profit or loss	(9)	(314,402)	(191,547)
Dividend income from financial investments	(10)	24,332	11,125
Other operating income	(11)	206,395	154,606
Operating income		6,294,346	6,595,361
Operating expenses	(12)	(1,879,373)	(1,888,729)
Operating profit before impairment losses		4,414,973	4,706,632
Net impairment losses on financial assets	(13)	(667,728)	(1,077,292)
Operating profit after impairment losses		3,747,245	3,629,340
Revaluation loss on investment properties		–	(2,958)
Net loss on disposal of property, plant and equipment	(14)	(469)	(198)
Net gain on disposal of financial assets at fair value through other comprehensive income		464,445	408,358
Operating profit		4,211,221	4,034,542
Share of losses of associates		(14,856)	(5,288)
Profit before tax		4,196,365	4,029,254
Income tax expense	(15)	(741,612)	(697,765)
Profit for the period attributable to equity holders		3,454,753	3,331,489

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(UNAUDITED)**

	Unaudited six months ended 30 June 2021 HK\$'000	Unaudited six months ended 30 June 2020 HK\$'000
Profit for the period	<u>3,454,753</u>	<u>3,331,489</u>
Items that will not be reclassified to profit or loss:		
Change in fair value reserve of equity investments designated at fair value through other comprehensive income	413,989	(923,611)
Income tax effect	—	—
	<u>413,989</u>	<u>(923,611)</u>
Revaluation surplus/(deficit) on bank premises	4,192	(12,472)
Income tax effect	(692)	1,306
	<u>3,500</u>	<u>(11,166)</u>
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of hedging instruments under cash flow hedges	116,346	(342,516)
Income tax effect	159,600	(349,921)
	<u>275,946</u>	<u>(692,437)</u>
Change in fair value reserve of financial assets measured at fair value through other comprehensive income	287,805	(61,564)
Reserve realised on disposal of financial assets measured at fair value through other comprehensive income	(336,515)	(4,400)
Change in provision for Expected Credit Loss (“ECL”)	11,317	10,800
Income tax effect	(1,826)	11,218
	<u>(39,219)</u>	<u>(43,946)</u>
Exchange differences arising from translation of results of foreign subsidiaries	401,207	(281,232)
Other comprehensive income/(expense) for the period, net of tax	<u>1,055,423</u>	<u>(1,952,392)</u>
Total comprehensive income for the period, net of tax	<u>4,510,176</u>	<u>1,379,097</u>
Attributable to:		
Equity holders of the Bank	<u>4,510,176</u>	<u>1,379,097</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021
(UNAUDITED)

	Notes	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000	Unaudited 30 June 2020 HK\$'000
Assets				
Cash and balances with banks and other financial institutions	(17)	156,161,899	118,727,991	121,066,590
Placements with banks and other financial institutions	(18)	46,599,672	103,478,432	106,247,122
Financial assets held for trading	(19)	–	–	451,799
Financial assets at fair value through profit or loss	(20)	5,473,242	5,093,540	5,277,181
Derivative financial instruments	(21)	12,342,847	16,465,187	14,724,889
Advances and other accounts	(22)	512,629,602	479,562,460	487,537,575
Investment securities:		191,324,056	186,966,866	188,949,342
– measured at fair value through other comprehensive income	(23)	138,946,953	140,006,031	143,140,951
– measured at amortised cost	(23)	52,377,103	46,960,835	45,808,391
Investments in associates		185,653	200,509	239,955
Goodwill and other intangible assets		1,019,129	1,021,525	1,013,889
Investment properties	(24)	132,477	131,929	132,276
Property, plant and equipment	(25)	2,326,653	2,163,802	2,243,208
Current income tax assets		–	–	530
Deferred income tax assets	(29)	1,007,743	657,377	340,870
Other assets	(26)	13,224,854	16,622,920	19,988,561
Total assets		942,427,827	931,092,538	948,213,787
Liabilities				
Deposits from banks and other financial institutions	(27)	129,184,550	205,998,447	179,913,370
Derivative financial instruments	(21)	12,066,267	15,624,197	12,660,268
Deposits from customers	(28)	611,080,224	522,484,014	561,328,565
Certificates of deposit issued		6,308,982	7,045,548	10,214,484
Debt securities in issue		24,170,064	25,136,923	28,178,458
– designated at fair value through profit or loss		7,748,996	7,373,240	8,623,061
– measured at amortised cost		16,421,068	17,763,683	19,555,397
Current income tax liabilities		540,812	1,037,278	662,666
Deferred income tax liabilities	(29)	–	–	200,364
Subordinated debts measured at amortised cost	(30)	–	–	3,873,736
Other liabilities	(31)	17,446,891	15,999,056	16,594,661
Total liabilities		800,797,790	793,325,463	813,626,572
Equity				
Share capital	(32)	44,187,631	44,187,631	44,187,631
Retained earnings		65,136,553	62,329,014	60,847,205
Other reserves		4,670,146	3,614,723	1,916,672
Total equity attributable to shareholders of the Bank		113,994,330	110,131,368	106,951,508
Additional equity instruments	(33)	27,635,707	27,635,707	27,635,707
Total equity		141,630,037	137,767,075	134,587,215
Total equity and liabilities		942,427,827	931,092,538	948,213,787

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(UNAUDITED)**

Notes	Share capital	Bank premises revaluation reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Additional equity instruments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	44,187,631	607,239	669,349	(714,114)	(687,890)	(25,130)	3,765,269	62,329,014	27,635,707	137,767,075
Profit for the period	-	-	-	-	-	-	-	3,454,753	-	3,454,753
Other comprehensive income/(expense) for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	287,805	413,989	-	-	-	-	-	701,794
Reserve realised on disposal of financial assets measured at fair value through other comprehensive income	-	-	(336,515)	-	-	-	-	-	-	(336,515)
Changes in fair value of cash flow hedges	-	-	-	-	116,346	-	-	-	-	116,346
Change in provision for ECL	-	-	11,317	-	-	-	-	-	-	11,317
Revaluation surplus on bank premises	-	4,192	-	-	-	-	-	-	-	4,192
Change in deferred tax	(29)	(692)	(1,826)	-	159,600	-	-	-	-	157,082
Exchange differences	-	-	-	-	-	401,207	-	-	-	401,207
Total comprehensive income/(expense) for the period	-	3,500	(39,219)	413,989	275,946	401,207	-	3,454,753	-	4,510,176
Distribution paid on additional equity instruments	(16.2)	-	-	-	-	-	-	(647,214)	-	(647,214)
At 30 June 2021	<u>44,187,631</u>	<u>610,739</u>	<u>630,130</u>	<u>(300,125)</u>	<u>(411,944)</u>	<u>376,077</u>	<u>3,765,269</u>	<u>65,136,553</u>	<u>27,635,707</u>	<u>141,630,037</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(UNAUDITED)**

	Share capital	Bank premises revaluation reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Additional equity instruments	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	44,187,631	608,522	249,096	90,869	(137,772)	(669,457)	3,727,757	58,162,741	27,635,707	133,855,094
Profit for the period	-	-	-	-	-	-	-	3,331,489	-	3,331,489
Other comprehensive income/(expense) for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	(61,564)	(923,611)	-	-	-	-	-	(985,175)
Reserve realised on disposal of financial assets measured at fair value through other comprehensive income	-	-	(4,400)	-	-	-	-	-	-	(4,400)
Changes in fair value of cash flow hedges	-	-	-	-	(342,516)	-	-	-	-	(342,516)
Change in provision for ECL	-	-	10,800	-	-	-	-	-	-	10,800
Revaluation deficit on bank premises	-	(12,472)	-	-	-	-	-	-	-	(12,472)
Change in deferred tax	-	1,306	11,218	-	(349,921)	-	-	-	-	(337,397)
Exchange differences	-	-	-	-	-	(281,183)	-	(49)	-	(281,232)
Total comprehensive income/(expense) for the period	-	(11,166)	(43,946)	(923,611)	(692,437)	(281,183)	-	3,331,440	-	1,379,097
Distribution paid on additional equity instruments	(16.2)	-	-	-	-	-	-	(646,976)	-	(646,976)
At 30 June 2020	<u>44,187,631</u>	<u>597,356</u>	<u>205,150</u>	<u>(832,742)</u>	<u>(830,209)</u>	<u>(950,640)</u>	<u>3,727,757</u>	<u>60,847,205</u>	<u>27,635,707</u>	<u>134,587,215</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(UNAUDITED)**

	Unaudited six months ended 30 June 2021 HK\$'000	Unaudited six months ended 30 June 2020 HK\$'000
Net cash flows generated from/(used in) operating activities	25,685,296	(24,953,503)
Cash flows from investing activities:		
Purchase of intangible assets	(1,826)	(730)
Purchase of property, plant and equipment	(84,602)	(71,446)
Proceeds from disposal of property, plant and equipment	50,490	13,017
Investment in associates	–	(75,000)
Dividend income from listed financial assets at fair value through profit or loss	23,052	9,645
Dividend income from unlisted equity securities measured at fair value through other comprehensive income	1,280	1,480
Net cash flows used in investing activities	<u>(11,606)</u>	<u>(123,034)</u>
Cash flows from financing activities:		
Distribution paid on additional equity instruments	(647,214)	(646,976)
Mature of debt securities in issue measured at amortised cost	(1,549,741)	(2,598,688)
Interest paid on debt securities in issue	(20,369)	(99,507)
Payment of lease liabilities	(262,928)	(288,912)
Net cash flows used in financing activities	<u>(2,480,252)</u>	<u>(3,634,083)</u>
Net increase/(decrease) in cash and cash equivalents	23,193,438	(28,710,620)
Cash and cash equivalents at 1 January	127,767,547	140,766,069
Effects of foreign exchange differences	335,687	(261,027)
Cash and cash equivalents at 30 June	(40) <u>151,296,672</u>	<u>111,794,422</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

1 Principal activities

The principal activities of the Group are the provision of banking, financial and other financial related services.

2 Basis of preparation and consolidation

2.1 Basis of preparation

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and it also contains the applicable disclosure requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2020 except for the adoption of the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs issued up to 30 June 2021 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2020.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial disclosure statements as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Group’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

2 Basis of preparation and consolidation (continued)

2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries and a unit trust, which are all 100% held by the Bank, included in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Futures Company Limited
- ICBC Asset Management (Global) Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Financial Services Company Limited
- SINO-CEEF Holding Company Limited
- Greater China Fund
- 工銀亞投股權投資管理(深圳)有限公司

3 Impact of new/revised HKFRSs and HKASs

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*
- Amendments to HKAS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised HKFRSs and HKASs (continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

A. Managing interest rate benchmark reform and any risks arising due to reform

i. Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacements of interbank offered rates (“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. The Group anticipates that IBOR reform will impact its risk management and hedge accounting. The Group has established a project to manage the transition for any of its contracts that could be affected. The project is coordinated by a Deputy Chief Executive and involved senior representatives from functions across the Group including the asset and liability management, front line business and product management, legal and compliance, finance, risk management, operations and technology. The project team provides monthly progress updates to the senior management.

ii. Modification of financial assets, financial liabilities and lease liabilities.

A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16.

iii. Derivatives held for risk management purposes and hedge accounting

Derivatives

The Group holds interest rate swaps for risk management purposes, which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to either Euribor, HIBOR or USD LIBOR. The Group’s derivative instruments are governed by the International Swaps and Derivatives Association (“ISDA”)’s Master Agreement. ISDA fallback protocol and supplement was released on 23 October 2020, and the group has prepared to negotiate the inclusion of new fallback clauses with its derivative counterparties. No derivative instruments have been modified as at 30 June 2021.

Hedge accounting

The Group evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 30 June 2021. The Group’s hedged items and hedging instruments continue to be indexed to IBOR benchmark rates which are Euribor, HIBOR and USD LIBOR. IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised HKFRSs and HKASs (continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2 (continued)

A. Managing interest rate benchmark reform and any risks arising due to reform (continued)

iii. Derivatives held for risk management purposes and hedge accounting (continued)

Hedge accounting (continued)

However, the Group's cash flow hedging relationships extend beyond the anticipated cessation date for USD LIBOR. The Group expects that USD LIBOR will be discontinued after 30 June 2023. The preferred alternative reference rate is Secured Overnight Financing Rate ("SOFR").

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 instrument 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 present value of hedged cash flows on a similar basis.

The Group's exposure to USD LIBOR designated in a hedging relationship is HK\$40,419 million nominal amount as at 30 June 2021 attributable to the interest rate swap hedging USD LIBOR cash flows on the same principal amount of the Group's USD-denominated secured bank loan liability maturing in 2023. The Group is actively engaging with lenders to include appropriate fallback provisions in its floating-rate liabilities with maturities after 2021. We expect that the hedging instrument will be modified as outlined under derivatives above.

Additionally, the calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future.

B. Specific policies applicable for hedging directly affected by IBOR reform

For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the benchmark interest rate is not altered as a result of IBOR 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 IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. To determine whether the designated forecast transaction is no longer 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 IBOR reform.

The Group will cease to apply the amendments to its assessment of the economic relationship between the hedged item and the hedging instrument when the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised HKFRSs and HKASs (continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* (continued)

C. Financial instruments impacted by IBOR reform

The table below shows the Group's exposures at 30 June 2021 to significant IBORs that have yet to transit to alternative reference rates. These exposures will remain outstanding until the IBOR ceases on 30 June 2023 and will therefore transit subsequently. The table excludes exposures to IBOR that will expire before transition is required.

At 30 June 2021	USD LIBOR HK\$m	GBP LIBOR HK\$m	EUR LIBOR HK\$m	JPY LIBOR HK\$m
Non-derivative financial assets ¹	35,025	5,646	323	3
Non-derivative financial liabilities	6,989	–	–	–
Derivative notional contract amount	158,759	–	–	–

¹ Gross carrying amount excluding allowances for ECL

Amendment to HKFRS 16, *COVID-19-Related Rent Concessions beyond 30 June 2021*

A. Accounting policies

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions in the same way it would account for the changes applying HKFRS 16 “Leases” if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in profit or loss in the period in which the event occurs.

B. Transition and summary of effects

The Group has applied the Amendment to HKFRS 16 “*Covid-19-Related Rent Concessions*” for the first time and early applied the Amendment to HKFRS 16 “*Covid-19-Related Rent Concessions beyond 30 June 2021*” in the current interim period retrospectively. The application has had no impact to the opening retained profits at 1 January 2021.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management

4.1 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At 30 June 2021	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	110,327,119	45,834,780	-	-	-	-	-	156,161,899
Placements with banks and other financial institutions	-	-	24,016,871	22,582,801	-	-	-	46,599,672
Financial assets at fair value through profit or loss								
– investment funds	-	-	-	-	-	-	4,919,126	4,919,126
– others	-	-	-	-	-	487,992	66,124	554,116
Derivative financial instruments	94,868	1,729,267	1,220,575	1,625,627	5,305,113	2,367,397	-	12,342,847
Advances and other accounts	6,373,308	59,139,601	34,081,318	107,359,652	200,889,178	104,786,545	-	512,629,602
Financial investments measured at fair value through other comprehensive income								
– treasury bills	-	4,382,001	14,589,746	-	3,471,380	2,990,556	-	25,433,683
– certificates of deposit held	-	155,285	-	-	-	-	-	155,285
– other debt securities	-	233,125	2,073,365	14,574,045	58,272,964	35,431,347	-	110,584,846
– equity securities	-	-	-	-	-	-	2,773,139	2,773,139
Financial investments measured at amortised cost								
– treasury bills	-	4,775,335	-	2,906,105	6,811,793	6,857,929	-	21,351,162
– certificates of deposit held	-	-	-	-	-	-	-	-
– other debt securities	-	3,876	1,288,643	2,903,561	17,155,424	9,674,437	-	31,025,941
Investments in associates	-	-	-	-	-	-	185,653	185,653
Goodwill and other intangible assets	-	-	-	-	-	-	1,019,129	1,019,129
Investment properties	-	-	-	-	-	-	132,477	132,477
Property, plant and equipment	-	-	-	-	-	-	2,326,653	2,326,653
Other assets, including current and deferred income tax assets	56,541	1,991,775	911,955	3,861,667	2,406,533	307,006	4,697,120	14,232,597
Total assets	116,851,836	118,245,045	78,182,473	155,813,458	294,312,385	162,903,209	16,119,421	942,427,827
Liabilities								
Deposits from banks and other financial institutions	19,826,174	24,506,203	33,182,676	36,967,096	14,702,401	-	-	129,184,550
Derivative financial instruments	-	1,673,788	1,566,117	3,213,996	3,111,700	2,500,666	-	12,066,267
Deposits from customers	283,977,741	114,088,690	97,457,805	96,222,361	19,333,627	-	-	611,080,224
Certificates of deposit issued	-	-	6,308,982	-	-	-	-	6,308,982
Debt securities in issue								
– designated at fair value through profit or loss	-	-	-	-	7,748,996	-	-	7,748,996
– measured at amortised cost	-	-	149,952	299,580	15,971,536	-	-	16,421,068
Other liabilities, including current and deferred income tax liabilities	2,249,936	8,161,321	1,346,840	4,462,585	214,956	-	1,552,065	17,987,703
Total liabilities	306,053,851	148,430,002	140,012,372	141,165,618	61,083,216	2,500,666	1,552,065	800,797,790
Net liquidity gap	(189,202,015)	(30,184,957)	(61,829,899)	14,647,840	233,229,169	160,402,543	14,567,356	141,630,037

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.1 Analysis of assets and liabilities by remaining maturity (continued)

31 December 2020	Repayable on demand HK\$'000	Up to one month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	62,226,815	56,501,176	-	-	-	-	-	118,727,991
Placements with banks and other financial institutions	-	-	67,970,983	35,507,449	-	-	-	103,478,432
Financial assets at fair value through profit or loss								
- investment funds	-	-	-	-	-	-	4,597,800	4,597,800
- other	-	-	-	-	-	470,123	25,617	495,740
Derivative financial instruments	111,050	1,486,405	2,091,969	4,115,435	5,743,422	2,916,906	-	16,465,187
Advances and other accounts	6,997,484	27,986,010	36,996,617	118,739,519	189,462,361	99,380,469	-	479,562,460
Financial investments measured at FVTOCI								
- treasury bills	-	4,369,938	17,828,403	298,568	2,932,447	3,190,310	-	28,619,666
- certificates of deposit held	-	587,074	-	154,162	-	-	-	741,236
- other debt securities	-	667,893	1,056,582	6,595,649	50,543,530	49,358,206	-	108,221,860
- equity securities	-	-	-	-	-	-	2,423,269	2,423,269
Financial investments measured at amortised cost								
- treasury bills	-	-	-	6,934,064	6,424,919	7,639,582	-	20,998,565
- certificates of deposit held	-	-	-	385,477	-	-	-	385,477
- other debt securities	-	1,631,811	403,509	3,646,713	16,390,347	3,504,413	-	25,576,793
Investments in associates	-	-	-	-	-	-	200,509	200,509
Goodwill and other intangible assets	-	-	-	-	-	-	1,021,525	1,021,525
Investment properties	-	-	-	-	-	-	131,929	131,929
Property, plant and equipment	-	-	-	-	-	-	2,163,802	2,163,802
Other assets, including current and deferred income tax assets	117,329	2,923,439	1,347,372	3,151,436	3,048,472	436,790	6,255,459	17,280,297
Total assets	69,452,678	96,153,746	127,695,435	179,528,472	274,545,498	166,896,799	16,819,910	931,092,538
Liabilities								
Deposits from banks and other financial institutions	48,577,256	40,204,166	22,346,575	59,241,452	35,628,998	-	-	205,998,447
Derivative financial instruments	-	1,338,059	1,848,071	4,374,239	4,165,172	3,898,656	-	15,624,197
Deposits from customers	210,578,626	84,098,706	95,493,442	119,172,221	13,141,019	-	-	522,484,014
Certificates of deposit issued	-	-	7,045,548	-	-	-	-	7,045,548
Debt securities in issue								
- designated at fair value through profit or loss	-	-	-	-	7,373,240	-	-	7,373,240
- measured at amortised cost	-	-	-	1,998,756	15,764,927	-	-	17,763,683
Other liabilities, including current and deferred income tax liabilities	3,137,975	6,421,041	1,179,474	4,819,790	192,209	-	1,285,845	17,036,334
Total liabilities	262,293,857	132,061,972	127,913,110	189,606,458	76,265,565	3,898,656	1,285,845	793,325,463
Net liquidity gap	(192,841,179)	(35,908,226)	(217,675)	(10,077,986)	198,279,933	162,998,143	15,534,065	137,767,075

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities

Financial instruments measured at fair value using a valuation technique

Fair value of financial assets and financial liabilities that are traded in active market are based on quoted market prices. For all other financial instruments, the Group determines fair value using valuation techniques. In general, quoted prices in active market will be used if available. When quoted prices in active markets are not available, an appropriate valuation technique will be employed.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of financial instruments. The market data inputs are independent and observable in the market which avoids any manipulation of the fair value. The Group has also an established Valuation Committee to set up control framework with respect to the measurement of fair value. Valuation Committee is responsible for review of all market prices and rate sources used as well as curves, methodology and models for valuation of financial instruments.

A Credit Valuation Adjustment (CVA) is applied to the Group's over-the-counter (OTC) derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivatives. CVA is the mark-to-market adjustment to the fair value to reflect potential credit risk from counterparties in the Group's OTC derivative portfolio. CVA is calculated by multiplying the expected loss rates and the exposure value of the instruments at deal level.

The Group estimates the expected loss rates by referencing the market implied probability of default, expected loss given default and discounted future exposure of the counterparties at similar external credit grading level. A Debit Valuation Adjustment (DVA) is applied to incorporate the Group's own credit risk in the fair value of derivatives, using same methodology as for CVA.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

Determination of fair value hierarchy

The following table presents the fair value of the Group's financial instruments 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 valuation:	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 valuation:	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 are not available.
Level 3 valuation:	Fair value measured using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs that are not observable and the 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

30 June 2021	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	-	4,243,453	-	4,243,453
Structured foreign exchange contracts	-	3,318	-	3,318
Currency swaps	-	835,930	-	835,930
Foreign exchange options	-	114,356	-	114,356
Interest rate swaps	-	3,903,262	-	3,903,262
Interest rate futures	-	1,186	-	1,186
Equity swaps	-	3,241,323	-	3,241,323
Equity options	-	19	-	19
	-	12,342,847	-	12,342,847
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	-	863,945	-	863,945
Trade bills	-	2,429,489	-	2,429,489
	-	3,293,434	-	3,293,434
Loans and advances to customers measured at fair value through profit and loss				
	-	4,250,718	-	4,250,718
Financial assets at fair value through profit or loss				
Investment funds	4,273,595	645,531	-	4,919,126
Others	-	554,116	-	554,116
	4,273,595	1,199,647	-	5,473,242

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.2 Fair value of financial assets and liabilities (continued)

30 June 2021	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Investment securities measured at fair value through other comprehensive income				
Debt securities	–	136,173,814	–	136,173,814
Equity securities	–	237,741	2,535,398	2,773,139
	–	136,411,555	2,535,398	138,946,953
Total financial assets	4,273,595	157,498,201	2,535,398	164,307,194
Financial liabilities				
Deposits from banks and other financial institutions	–	19,726,815	–	19,726,815
Derivative financial instruments				
Forward foreign exchange contracts	–	4,175,041	–	4,175,041
Structured foreign exchange contracts	–	2,874	–	2,874
Currency swaps	–	717,055	–	717,055
Foreign currency options	–	120,132	–	120,132
Interest rate swaps	–	5,050,518	–	5,050,518
Interest rate futures	–	722	–	722
Equity swaps	–	229,447	–	229,447
Equity options	–	19	–	19
Commodity swaps	–	1,770,459	–	1,770,459
	–	12,066,267	–	12,066,267
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	7,748,996	–	7,748,996
Total financial liabilities	–	39,542,078	–	39,542,078

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

31 December 2020	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,312,598	–	6,312,598
Structured foreign exchange contracts	–	3,418	–	3,418
Currency swaps	–	974,079	–	974,079
Foreign exchange options	–	182,513	–	182,513
Interest rate swaps	–	5,055,515	–	5,055,515
Commodity forward	–	–	–	–
Interest rate futures	–	2,339	–	2,339
Equity swaps	–	3,063,111	–	3,063,111
Equity options	–	–	–	–
Commodity swaps	–	871,614	–	871,614
	–	16,465,187	–	16,465,187
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	1,180,511	–	1,180,511
Trade bills	–	2,284,108	–	2,284,108
	–	3,464,619	–	3,464,619
Loans and advances to customers measured at fair value through profit and loss				
	–	4,250,429	–	4,250,429

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.2 Fair value of financial assets and liabilities (continued)

31 December 2020	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
Investment funds	4,248,354	349,446	–	4,597,800
Others	–	495,740	–	495,740
	<u>4,248,354</u>	<u>845,186</u>	<u>–</u>	<u>5,093,540</u>
Investment securities measured at fair value through other comprehensive income				
Debt securities	119,729	137,463,033	–	137,582,762
Equity securities	–	230,187	2,193,082	2,423,269
	<u>119,729</u>	<u>137,693,220</u>	<u>2,193,082</u>	<u>140,006,031</u>
Total financial assets	<u>4,368,083</u>	<u>162,718,641</u>	<u>2,193,082</u>	<u>169,279,806</u>
Financial liabilities				
Deposits from banks and other financial institutions	–	24,019,534	–	24,019,534
Derivative financial instruments				
Forward foreign exchange contracts	–	6,487,683	–	6,487,683
Structured foreign exchange contracts	–	3,414	–	3,414
Currency swaps	–	841,962	–	841,962
Foreign currency options	–	193,412	–	193,412
Interest rate swaps	–	7,307,358	–	7,307,358
Commodity forward	–	–	–	–
Interest rate futures	–	1,032	–	1,032
Equity swaps	–	408,836	–	408,836
Equity options	–	–	–	–
Commodity swaps	–	380,500	–	380,500
	<u>–</u>	<u>15,624,197</u>	<u>–</u>	<u>15,624,197</u>
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	7,373,240	–	7,373,240
Total financial liabilities	<u>–</u>	<u>47,016,971</u>	<u>–</u>	<u>47,016,971</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 January 2021 HK\$'000	Addition HK\$'000	Total gains recorded in equity HK\$'000	At 30 June 2021 HK\$'000
Financial assets				
Financial investment measured at FVTOCI				
– Equities	2,193,082	1,000	341,316	2,535,398
Total Level 3 financial assets	<u>2,193,082</u>	<u>1,000</u>	<u>341,316</u>	<u>2,535,398</u>
	At 1 January 2020 HK\$'000	Addition HK\$'000	Total losses recorded in equity HK\$'000	At 31 December 2020 HK\$'000
Financial assets				
Financial investment measured at FVTOCI				
– Equities	2,237,985	750,770	(795,673)	2,193,082
Total Level 3 financial assets	<u>2,237,985</u>	<u>750,770</u>	<u>(795,673)</u>	<u>2,193,082</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

Significant transfers between Levels 1 and 2

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Investment securities measured at FVTPL		
Investment funds	–	50,326
Investment securities measured at FVTOCI		
Debt securities	–	59,980,613

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and fair value were consequently obtained using valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Investment securities measured at FVTPL		
Investment funds	–	152,019
Investment securities measured at FVTOCI		
Debt securities	–	100,167

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the period and fair value were no longer obtained using valuation techniques using observable market inputs.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

There were no significant transfers into or out of level 3 during the period (30 June 2020: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

The fair value of financial assets and liabilities are estimated as follows:

(a) *Balances and placements with banks and other financial institutions*

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest-bearing deposits, all of which are less than one year, is based on the discounted cash flows using prevailing money-market interest rates and the remaining maturity. Therefore, the fair value is approximately equal to the carrying value.

(b) *Advances and other accounts*

Advances and other accounts are net of allowances for impairment. All items, except a very insignificant portion of loans and advances to customers, bear interest at a floating rate. The Group has assessed the fair value of loans and advances to customers and banks, after taking into account the relevant market interest rates and net of allowances for impairment. It is noted that the total fair value is not materially different from the total carrying value.

(c) *Investments measured at amortised cost*

The fair value of investments measured at amortised cost is determined with reference to the available market value. If quoted market prices are not available, then the fair value is estimated on the basis of pricing models or using other valuation techniques.

(d) *Deposits and balances from customers, banks and other financial institutions*

The estimated fair value of deposits and balances with no stated maturity is the amount repayable on demand. The fair value of those balances having an interest at a floating rate is their carrying value.

The estimated fair value of the fixed interest-bearing deposits of banks and deposits from customers without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As their maturity is normally less than one year from the end of the reporting period, their fair value is approximately equal to their carrying values.

(e) *Certificates of deposit issued*

The Group has assessed the fair value of certificates of deposit issued after taking into account the relevant yield curve and noted that the total fair value is not materially different from the total carrying value.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**4 Financial risk management (continued)****4.2 Fair value of financial assets and liabilities (continued)***Financial instruments not measured at fair value (continued)**(f) Other assets and other liabilities*

The estimated fair value of the other assets and other liabilities, which are normally non-interest-bearing, is their carrying values.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 30 June 2021 and 31 December 2020.

4.3 Fair value of non-financial assets and liabilities*Fair value hierarchy*

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair value of non-financial assets and liabilities (continued)

Fair value hierarchy (continued)

Level 1 valuations: 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 valuations: 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 are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value at 30 June 2021

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	612,102	-	-	612,102
Investment properties	132,477	-	-	132,477

Fair value at 31 December 2020

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	615,992	-	-	615,992
Investment properties	131,929	-	-	131,929

During the half year ended 30 June 2021 and 30 June 2020, there were no transfers between Level 1 and Level 2, or 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 and properties were revalued as at 30 June 2021. The valuations on the Banks's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates (Surveyors) Limited. The valuation on investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Guozhonglian Appraisals Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair value of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties			
– Hong Kong	Investment method	Market yield	2.73%-2.85%
– Mainland China	Discounted cash flow	Risk adjusted discount rate	4.7%
		Expected market rental growth	3% - 5%
		Expected occupancy rate	95%
Bank premises and properties			
– Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	6.72% - (19.17%)
– Mainland China method 1	Discounted cash flow	Risk adjusted discount rate	4.5%
		Expected market rental growth	5%
		Expected occupancy rate	97%
– Mainland China method 2	Direct comparison approach	Market value discount rate	6%

For investment properties classified under level 3, the fair value are valued by:

- i) investment method of valuation and have assessed the contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements at appropriate market yields as perceived in the actual market; and
- ii) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

For bank premises and properties classified under level 3, the fair value are determined by:

- i) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates; and
- ii) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair value of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements (continued)

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

Bank premises and properties:	HK\$'000
At 1 January 2021	615,992
Addition for the period	–
Exchange adjustment	33
Depreciation charge for the period	(8,115)
Surplus on revaluation	4,192
	<hr/>
At 30 June 2021	<u>612,102</u>
Investment properties:	HK\$'000
At 1 January 2021	131,929
Fair value adjustment	–
Exchange adjustment	548
	<hr/>
At 30 June 2021	<u>132,477</u>
Bank premises and properties:	HK\$'000
At 1 January 2020	607,192
Exchange adjustment	24,715
Depreciation charge for the year	(16,760)
Surplus on revaluation	845
	<hr/>
At 31 December 2020	<u>615,992</u>
Investment properties:	HK\$'000
At 1 January 2020	135,234
Fair value adjustment	(5,500)
Exchange adjustment	2,195
	<hr/>
At 31 December 2020	<u>131,929</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from Expected Credit Loss (ECL)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument:

Loans and advances to customers, banks and trade bills measured at amortised cost

30 June 2021	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2021	4,234,142	576,636	2,900,014	7,710,792
Transfer to 12-month ECL	11,836	(11,836)	–	–
Transfer to Lifetime ECL not credit-impaired	(27,977)	27,977	–	–
Transfer to Lifetime ECL credit-impaired	(1,908)	(45,711)	47,619	–
Net remeasurement of loss allowance (including exchange adjustments)	(463,951)	258,939	(61,856)	(266,868)
New financial assets originated or purchased	1,940,017	6,569	857	1,947,443
Financial assets that have been derecognised	(743,374)	(63,625)	(265,450)	(1,072,449)
Write-off	–	–	(805,956)	(805,956)
Recoveries of amount previously written off	–	–	1,094	1,094
At 30 June 2021	<u>4,948,785</u>	<u>748,949</u>	<u>1,816,322</u>	<u>7,514,056</u>
Deducted from:				
Advances to customers	4,913,200	748,946	1,816,322	7,478,468
Advances to banks	27,051	–	–	27,051
Trade bills	8,534	3	–	8,537
	<u>4,948,785</u>	<u>748,949</u>	<u>1,816,322</u>	<u>7,514,056</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from ECL (continued)

Loans and advances to customers, banks and trade bills measured at amortised cost (continued)

	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
31 December 2020				
Movement in impairment allowances:				
At 1 January 2020	2,280,274	797,972	2,469,280	5,547,526
Transfer to 12-month ECL	27,301	(27,301)	–	–
Transfer to Lifetime ECL not credit-impaired	(28,946)	28,946	–	–
Transfer to Lifetime ECL credit-impaired	(5,623)	(132,208)	137,831	–
Net remeasurement of loss allowance (including exchange adjustments)	449,867	85,866	944,321	1,480,054
New financial assets originated or purchased	2,148,292	45,362	–	2,193,654
Financial assets that have been derecognised	(637,023)	(222,001)	(6,439)	(865,463)
Write off	–	–	(670,985)	(670,985)
Recoveries of amount previously written off	–	–	26,006	26,006
At 31 December 2020	<u>4,234,142</u>	<u>576,636</u>	<u>2,900,014</u>	<u>7,710,792</u>
Deducted from:				
Advances to customers	4,195,498	576,634	2,900,014	7,672,146
Advances to banks	31,059	–	–	31,059
Trade bills	7,585	2	–	7,587
	<u>4,234,142</u>	<u>576,636</u>	<u>2,900,014</u>	<u>7,710,792</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from ECL (continued)

Financial investments measured at fair value through other comprehensive income

30 June 2021	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000	
Movement in impairment allowances:					
At 1 January 2021	135,949	466	–	136,415	
Transfer to 12-month ECL	–	–	–	–	
Transfer to Lifetime ECL not credit-impaired	–	–	–	–	
Transfer to Lifetime ECL credit-impaired	–	–	–	–	
Net remeasurement of loss allowance (including exchange adjustments)	(14,943)	–	–	(14,943)	
New financial assets originated or purchased	49,398	–	–	49,398	
Financial assets that have been derecognised	(22,672)	(466)	–	(23,138)	
At 30 June 2021	<u>147,732</u>	<u>–</u>	<u>–</u>	<u>147,732</u>	
		Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000	
31 December 2020	12-month ECL HK\$'000	120,876	5,728	–	126,604
Movement in impairment allowances:					
At 1 January 2020	120,876	5,728	–	126,604	
Transfer to 12-month ECL	2,941	(2,941)	–	–	
Transfer to Lifetime ECL not credit-impaired	–	–	–	–	
Transfer to Lifetime ECL credit-impaired	–	–	–	–	
Net remeasurement of loss allowance (including exchange adjustments)	7,728	(263)	–	7,465	
New financial assets originated or purchased	44,406	–	–	44,406	
Financial assets that have been derecognised	(40,002)	(2,058)	–	(42,060)	
At 31 December 2020	<u>135,949</u>	<u>466</u>	<u>–</u>	<u>136,415</u>	

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from ECL (continued)

Financial investments measured at amortised cost

30 June 2021	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2021	27,267	2,291	–	29,558
Transfer to 12-month ECL	1,673	(1,673)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(2,313)	(618)	–	(2,931)
New financial assets originated or purchased	10,998	–	–	10,998
Financial assets that have been derecognised	(1,046)	–	–	(1,046)
At 30 June 2021	<u>36,579</u>	<u>–</u>	<u>–</u>	<u>36,579</u>
31 December 2020	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2020	25,614	4,961	–	30,575
Transfer to 12-month ECL	136	(136)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(1,238)	(2,534)	–	(3,772)
New financial assets originated or purchased	5,802	–	–	5,802
Financial assets that have been derecognised	(3,047)	–	–	(3,047)
At 31 December 2020	<u>27,267</u>	<u>2,291</u>	<u>–</u>	<u>29,558</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from ECL (continued)
Cash, placements with banks and other financial institutions

30 June 2021	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2021	35,489	–	–	35,489
Net remeasurement of loss allowance (including exchange adjustments)	5,000	–	–	5,000
New financial assets originated or purchased	9,582	–	–	9,582
Financial assets that have been derecognised	(24,726)	–	–	(24,726)
At 30 June 2021	<u>25,345</u>	<u>–</u>	<u>–</u>	<u>25,345</u>
31 December 2020	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2020	34,797	–	–	34,797
Net remeasurement of loss allowance (including exchange adjustments)	1,912	–	–	1,912
New financial assets originated or purchased	33,121	–	–	33,121
Financial assets that have been derecognised	(34,341)	–	–	(34,341)
At 31 December 2020	<u>35,489</u>	<u>–</u>	<u>–</u>	<u>35,489</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from ECL (continued)

Loan commitments and financial guarantee contracts

30 June 2021	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2021	192,678	4,053	–	196,731
Transfer to 12-month ECL	–	–	–	–
Transfer to Lifetime ECL not credit-impaired	(53)	53	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(152)	(1,559)	–	(1,711)
New financial assets originated or purchased	185,482	769	–	186,251
Financial assets that have been derecognised	(105,800)	(1,839)	–	(107,639)
At 30 June 2021	<u>272,155</u>	<u>1,477</u>	<u>–</u>	<u>273,632</u>
31 December 2020	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
At 1 January 2020	71,675	3,512	–	75,187
Transfer to 12-month ECL	2,459	(2,459)	–	–
Transfer to Lifetime ECL not credit-impaired	(13)	13	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	32,393	130	–	32,523
New financial assets originated or purchased	132,034	3,835	–	135,869
Financial assets that have been derecognised	(45,870)	(978)	–	(46,848)
At 31 December 2020	<u>192,678</u>	<u>4,053</u>	<u>–</u>	<u>196,731</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting

5.1 Class of business

The Group comprises seven operating segments. Asia Pacific Business represents the banking business in Asia Pacific Region. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

30 June 2021	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	163,286	650,763	516,410	733,234	702,362	323,702	1,243,264	360,822	4,693,843
Fee and commission income	33,700	268,332	162,355	517,098	-	153,589	144,105	91,713	1,370,892
Fee and commission expense	-	(6,241)	(427)	(83,917)	-	(72)	(5,321)	(32,245)	(128,223)
Net fee and commission income	33,700	262,091	161,928	433,181	-	153,517	138,784	59,468	1,242,669
Net trading income/(expense)	4,877	50,908	113,899	92,896	516,038	16,808	(259,718)	(94,199)	441,509
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(352,001)	7,083	-	30,516	(314,402)
Dividend income from financial investments	-	-	-	-	-	-	-	24,332	24,332
Other operating income	-	-	154	4,234	-	3,650	3,412	194,945	206,395
Operating income	201,863	963,762	792,391	1,263,545	866,399	504,760	1,125,742	575,884	6,294,346
Operating expenses	(45,629)	(121,054)	(227,206)	(757,630)	(167,872)	(129,113)	(219,827)	(211,042)	(1,879,373)
Operating profit before impairment losses	156,234	842,708	565,185	505,915	698,527	375,647	905,915	364,842	4,414,973
Write back/(charge for) impairment losses on financial assets	(4,073)	49,953	283,208	(11,535)	4,333	(7,722)	(199,606)	(782,286)	(667,728)
Operating profit after impairment losses	152,161	892,661	848,393	494,380	702,860	367,925	706,309	(417,444)	3,747,245
Revaluation loss on investment properties	-	-	-	-	-	-	-	-	-
Net loss on disposal of property, plant and equipment	-	-	(89)	(330)	-	-	-	(50)	(469)
Net gain on disposal financial assets at fair value through other comprehensive income	-	-	-	-	456,165	-	8,280	-	464,445
Operating profit	152,161	892,661	848,304	494,050	1,159,025	367,925	714,589	(417,494)	4,211,221
Share of loss of associates	-	-	-	-	-	-	-	(14,856)	(14,856)
Profit before tax	152,161	892,661	848,304	494,050	1,159,025	367,925	714,589	(432,350)	4,196,365
Segment assets	34,641,379	130,785,312	96,402,224	94,954,824	173,677,275	30,762,683	153,791,612	227,226,865	942,242,174
Investments in associates	-	-	-	-	-	-	-	185,653	185,653
Total assets	34,641,379	130,785,312	96,402,224	94,954,824	173,677,275	30,762,683	153,791,612	227,412,518	942,427,827
Total liabilities	12,233,075	184,014,741	103,407,245	184,858,978	17,090,499	121,969,346	136,512,979	40,710,927	800,797,790
Capital expenditure	5	93	199	133,978	118	111	125,791	250,067	510,362
Depreciation and amortisation charge	3,222	4,314	14,214	138,871	7,200	3,532	29,358	102,566	303,277

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
5 Segment reporting (continued)
5.1 Class of business (continued)

30 June 2020	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	197,572	663,427	630,499	692,858	602,741	396,953	1,146,493	913,881	5,244,424
Fee and commission income	52,039	336,048	96,252	405,873	-	116,591	69,379	80,871	1,157,053
Fee and commission expense	-	(6,713)	(424)	(83,641)	-	(272)	(2,717)	(24,668)	(118,435)
Net fee and commission income	52,039	329,335	95,828	322,232	-	116,319	66,662	56,203	1,038,618
Net trading income/(expense)	6,384	64,871	90,696	101,491	302,061	10,883	(215,967)	(22,284)	338,135
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(234,529)	42,267	4,250	(3,535)	(191,547)
Dividend income from financial investments	-	-	-	-	-	-	-	11,125	11,125
Other operating income	-	-	16	6,798	-	3,650	11,159	132,983	154,606
Operating income	255,995	1,057,633	817,039	1,123,379	670,273	570,072	1,012,597	1,088,373	6,595,361
Operating expenses	(47,538)	(128,426)	(321,736)	(708,264)	(158,247)	(129,886)	(202,953)	(191,679)	(1,888,729)
Operating profit before impairment losses	208,457	929,207	495,303	415,115	512,026	440,186	809,644	896,694	4,706,632
Write back/(charge for) impairment losses on financial assets	(47,317)	12,345	(433,675)	6,517	(10,017)	(1,354)	(79,263)	(524,528)	(1,077,292)
Operating profit after impairment losses	161,140	941,552	61,628	421,632	502,009	438,832	730,381	372,166	3,629,340
Revaluation loss on investment properties	-	-	-	-	-	-	-	(2,958)	(2,958)
Net loss on disposal of property, plant and equipment	-	-	-	(165)	-	-	(11)	(22)	(198)
Net gain on disposal financial assets at fair value through other comprehensive income	-	-	-	-	270,292	-	138,066	-	408,358
Operating profit	161,140	941,552	61,628	421,467	772,301	438,832	868,436	369,186	4,034,542
Share of loss of associates	-	-	-	-	-	-	-	(5,288)	(5,288)
Profit before tax	161,140	941,552	61,628	421,467	772,301	438,832	868,436	363,898	4,029,254
Segment assets	40,612,018	120,417,572	106,516,390	94,733,274	179,029,431	26,473,133	138,943,253	241,248,761	947,973,832
Investments in associates	-	-	-	-	-	-	-	239,955	239,955
Total assets	40,612,018	120,417,572	106,516,390	94,733,274	179,029,431	26,473,133	138,943,253	241,488,716	948,213,787
Total liabilities	15,308,338	126,792,350	95,381,784	216,791,110	16,939,060	143,316,363	124,249,092	74,848,475	813,626,572
Capital expenditure	7	95	118	128,123	26	248	15,379	546,579	690,575
Depreciation and amortisation charge	3,051	4,809	14,655	162,859	7,202	3,667	25,341	96,332	317,916

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.2 Geographical area

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

For the six months ended 30 June 2021

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Operating income	5,168,603	1,125,743	6,294,346
Profit before tax	3,480,264	716,101	4,196,365
Total assets	788,640,638	153,787,189	942,427,827
Total liabilities	664,293,466	136,504,324	800,797,790
Contingent liabilities and commitments	217,449,108	45,487,819	262,936,927
Capital expenditure during the period	384,571	125,791	510,362

For the six months ended 30 June 2020

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Operating income	5,581,248	1,014,113	6,595,361
Profit before tax	3,157,185	872,069	4,029,254
Total assets	809,274,516	138,939,271	948,213,787
Total liabilities	689,384,305	124,242,267	813,626,572
Contingent liabilities and commitments	176,684,724	36,505,253	213,189,977
Capital expenditure during the period	675,196	15,379	690,575

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	312,293	1,374,088
Placements with banks and other financial institutions	481,299	697,439
Advances and other accounts	5,269,002	7,079,212
Investment securities measured at fair value through other comprehensive income	1,515,621	1,921,358
Investment securities measured at amortised cost	615,886	672,136
	<u>8,194,101</u>	<u>11,744,233</u>
Interest expense on:		
Deposits from banks and other financial institutions	1,125,221	1,378,858
Deposits from customers	1,702,396	4,433,389
Certificates of deposit issued	6,922	71,478
Debt securities in issue	298,707	367,446
Subordinated debts measured at amortised cost	–	101,015
Others	367,012	147,623
	<u>3,500,258</u>	<u>6,499,809</u>
Net interest income	<u><u>4,693,843</u></u>	<u><u>5,244,424</u></u>

Note: Interest expense on lease liabilities is HK\$13,471,644 (first half of 2020: HK\$15,003,419).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Loans, overdrafts and guarantees	615,210	536,980
Securities and brokerage	294,436	220,752
Trade finance	55,744	48,412
Credit card	128,668	112,476
Remittance	65,506	53,430
Insurance	109,578	91,789
Other retail and commercial banking services	13,004	12,593
Securities arrangement fee	18,063	12,883
Others	70,683	67,738
	<hr/>	<hr/>
Fee and commission income	1,370,892	1,157,053
Fee and commission expense	(128,223)	(118,435)
	<hr/>	<hr/>
Net fee and commission income	<u>1,242,669</u>	<u>1,038,618</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor at FVTPL	670,953	585,392
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	30,128	23,323
Of which:		
Fee and commission income by product line constituting not less than 10% of the net amount of fee and commission income, as follows:		
– credit cards	128,668	112,476
– term loans	178,750	120,239
– syndication loans	288,378	308,818
– securities and brokerage	294,436	220,752

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Debt securities – Financial assets held for trading	9,814	7,374
– Investment securities at FVTOCI	(308,490)	(54,081)
Derivatives	509,742	40,390
Foreign exchange	229,035	357,222
	<u>440,101</u>	<u>350,905</u>
Gain/(loss) from hedging activities		
Fair value hedges		
– Net (loss)/gain on hedged items attributable to the hedged risk	(732,663)	1,847,330
– Net gain/(loss) on hedging instruments	734,071	(1,860,100)
	<u>1,408</u>	<u>(12,770)</u>
Total net trading income	<u>441,509</u>	<u>338,135</u>

9 Net loss on financial assets and liabilities at fair value through profit or loss

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Net gain on financial assets at fair value through profit or loss	48,230	65,528
Net loss on financial liabilities at fair value through profit or loss	(362,632)	(257,075)
Total net loss on financial assets and liabilities at fair value through profit or loss	<u>(314,402)</u>	<u>(191,547)</u>

10 Dividend income from financial investments

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	1,280	1,480
Dividend income from listed financial assets at fair value through profit or loss	23,052	9,645
Total dividend income from financial investments	<u>24,332</u>	<u>11,125</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Management fee income	188,850	123,850
Rental income	11,066	10,825
Rental income from investment properties	1,091	636
Others	5,388	19,295
	<u>206,395</u>	<u>154,606</u>

12 Operating expenses

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Staff costs		
– Salaries and other costs	1,094,933	1,052,999
– Retirement benefit costs	53,514	47,817
	<u>1,148,447</u>	<u>1,100,816</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	19,792	19,768
– Others	120,339	108,567
	<u>140,131</u>	<u>128,335</u>
Depreciation and amortisation expenses		
– Depreciation of right-of-use assets	245,907	259,419
– Depreciation of other fixed assets	53,148	54,854
– Amortisation of intangible assets	4,222	3,643
	<u>303,277</u>	<u>317,916</u>
Auditor's remuneration	3,240	3,180
General administration expenses	31,750	41,940
Business promotion expenses	34,825	62,829
Communication expenses	51,347	50,323
Other operating expenses	166,356	183,390
	<u>1,879,373</u>	<u>1,888,729</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
13 Net impairment losses on financial assets

	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Net charge for impairment losses on loans and advances	582,135	898,809
Net charge for impairment losses on other financial assets	85,593	178,483
	<u>667,728</u>	<u>1,077,292</u>

14 Net loss on disposal of property, plant and equipment

	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Net loss on disposal of property, plant and equipment	(473)	(202)
Write-back of revaluation deficits of bank premises	4	4
	<u>(469)</u>	<u>(198)</u>

15 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas branches and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The amount of tax charged to the consolidated income statement represents:

	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	656,816	603,470
– Provision for overseas tax for the period	120,485	264,034
Under/(over) provision in respect of prior periods	144,068	(68,123)
Deferred taxation	(179,757)	(101,616)
	<u>741,612</u>	<u>697,765</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

15 Income tax expense (continued)

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Profit before tax	4,196,365	4,029,254
Calculated at a tax rate of 16.5% (2020: 16.5%)	692,400	664,827
Effect of different tax rates in other countries and regions	71,328	83,190
Effect of income not subject to tax	(102,988)	(50,782)
Effect of expenses not deductible for tax purposes	13,020	95,031
Adjustments of current tax in respect of previous periods	144,068	(68,123)
Share of tax of associates	2,451	873
Other	(78,667)	(27,251)
	<u>741,612</u>	<u>697,765</u>
Tax charge	<u>741,612</u>	<u>697,765</u>

16 Dividends/distributions

16.1 Dividends attributable to ordinary shareholders in the period

At a meeting held on 23 August 2021, the Board did not recommend the payment of interim dividend for the six months ended 30 June 2021 (first half of 2020: Nil).

16.2 Distributions to holders of Additional Tier 1 Capital Securities

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Distributions paid on the Additional Tier 1 Capital Securities (note 33)	<u>647,214</u>	<u>646,976</u>

17 Cash and balances with banks and other financial institutions

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Cash on hand	376,124	417,885
Balances with central banks	73,001,385	23,912,678
Balances with other banks and financial institutions	36,951,747	37,897,693
Placements with banks and other financial institutions maturing within one month	45,834,780	56,501,176
Less: impairment allowances		
– 12-month ECL	(2,137)	(1,441)
	<u>156,161,899</u>	<u>118,727,991</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

18 Placements with banks and other financial institutions

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	46,622,880	103,512,480
Less: impairment allowances		
– 12-month ECL	(23,208)	(34,048)
	<u>46,599,672</u>	<u>103,478,432</u>

19 Financial assets held for trading

There were no financial assets held for trading as at 30 June 2021 (31 December 2020: Nil).

20 Financial assets at fair value through profit or loss

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Financial assets measured at fair value through profit or loss:		
– Investments funds	4,919,126	4,597,800
– Others	554,116	495,740
	<u>5,473,242</u>	<u>5,093,540</u>
Financial assets at fair value through profit or loss are analysed by category of issuer as follows:		
– Banks and other financial institutions	4,985,251	4,623,417
– Corporate entities	487,991	470,123
	<u>5,473,242</u>	<u>5,093,540</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and commodity related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair value of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity price relative to their terms. The aggregate fair value of derivative financial instruments (assets or liabilities) can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Each derivative transaction must be input into the relevant systems for settlement, mark-to-market revaluation, reporting and control.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Derivative financial instruments (continued)

The following tables summarise the contractual/notional amounts and fair value of each significant type of derivative financial instrument as at 30 June 2021 and 31 December 2020:

As at 30 June 2021	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards and currency swaps	800,828,587	5,079,383	(4,892,096)
– OTC currency options purchased	48,508,180	114,348	–
– OTC currency options written	49,964,173	8	(120,132)
– Structured foreign exchange instruments	5,397,764	3,318	(2,874)
Total foreign exchange derivatives		<u>5,197,057</u>	<u>(5,015,102)</u>
b) Interest rate derivatives			
– Interest rate swaps	221,622,236	3,640,175	(3,638,730)
– Interest rate futures	1,102,680	1,186	(722)
Total interest rate derivatives		<u>3,641,361</u>	<u>(3,639,452)</u>
c) Equity derivatives			
– Equity options	2,039	19	(19)
– Equity swaps	6,864,141	3,241,323	(229,447)
Total equity derivatives		<u>3,241,342</u>	<u>(229,466)</u>
Total derivative assets/(liabilities) held for trading		<u>12,079,760</u>	<u>(8,884,020)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	33,603,558	263,087	(1,136,316)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	6,815,636	–	(275,472)
– Commodity swaps	19,726,815	–	(1,770,459)
		<u>–</u>	<u>(2,045,931)</u>
Total derivative assets/(liabilities) held for hedging		<u>263,087</u>	<u>(3,182,247)</u>
Total recognised derivative assets/(liabilities)		<u>12,342,847</u>	<u>(12,066,267)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

As at 31 December 2020	Group Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards and currency swaps	620,574,952	7,286,677	(7,329,645)
– OTC currency options purchased	51,709,228	182,511	(1)
– OTC currency options written	57,545,368	2	(193,411)
– Structured foreign exchange instruments	337,995	3,418	(3,414)
Total foreign exchange derivatives		<u>7,472,608</u>	<u>(7,526,471)</u>
b) Interest rate derivatives			
– Interest rate swaps	240,475,999	4,880,407	(4,816,369)
– Interest rate futures	4,790,674	2,339	(1,032)
Total interest rate derivatives		<u>4,882,746</u>	<u>(4,817,401)</u>
c) Equity derivatives			
– Equity options	–	–	–
– Equity swaps	6,852,251	3,063,111	(408,836)
Total equity derivatives		<u>3,063,111</u>	<u>(408,836)</u>
Total derivative assets/(liabilities) held for trading		<u>15,418,465</u>	<u>(12,752,708)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	37,240,164	175,108	(2,115,079)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	7,041,064	–	(375,910)
– Commodity swaps	24,019,534	871,614	(380,500)
		<u>871,614</u>	<u>(756,410)</u>
Total derivative assets/(liabilities) held for hedging		<u>1,046,722</u>	<u>(2,871,489)</u>
Total recognised derivative assets/(liabilities)		<u>16,465,187</u>	<u>(15,624,197)</u>

The contractual or notional amounts of derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect itself against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include debt securities. The Group uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the profit or loss during the period is presented as follows:

	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	734,071	(1,860,100)
– Hedged items attributable to the hedged risk	(732,663)	1,847,330
	<u>1,408</u>	<u>(12,770)</u>

Cash flow hedges consist of interest rate swaps and commodity swaps entered into that are used to protect the Group against exposures to variability in cash flows that is attributable to a particular risk associated with all, or a component of, recognised assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the profit or loss when the hedged expected future cash flows affect the profit or loss. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit or loss. During the period, there was no ineffectiveness recognised in the profit or loss that arose from cash flow hedges (first half of 2020: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$268,355,000 previously recognised in equity under the cash flow hedge reserve was transferred to the profit or loss and included in the net interest income and other operating income (first half of 2020: realised gain of HK\$63,206,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2021 as a result of the highly probable cash flows no longer being expected to occur (first half of 2020: Nil).

22 Advances and other accounts

22.1 Loans and advances to customers, banks and other accounts

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	480,554,800	457,975,806
– Advances to banks	22,855,842	16,436,770
– Trade bills	8,334,082	4,308,231
	<hr/>	<hr/>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	511,744,724	478,720,807
Accrued interest	854,782	837,397
	<hr/>	<hr/>
	512,599,506	479,558,204
Less: Impairment allowances		
– 12-month ECL	(4,948,785)	(4,234,142)
– Lifetime ECL not credit-impaired	(748,949)	(576,636)
– Lifetime ECL credit-impaired	(1,816,322)	(2,900,014)
	<hr/>	<hr/>
	505,085,450	471,847,412
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	863,945	1,180,511
– Trade bills	2,429,489	2,284,108
	<hr/>	<hr/>
	508,378,884	475,312,031
Loans and advances to customers measured at fair value through profit or loss	4,250,718	4,250,429
	<hr/>	<hr/>
	512,629,602	479,562,460
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.1 Loans and advances to customers, banks and other accounts (continued)

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Gross impaired loans and advances	2,895,511	4,421,728
Impairment allowances made in respect of such loans	1,816,322	2,900,014
Gross impaired loans and advances as a percentage of total gross loans and advances	0.56%	0.91%
Market value of collateral	<u>9,041,231</u>	<u>11,924,896</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that have a detrimental impact on the estimated future cash flows of the loans have occurred.

Movement of the impairment allowances is included in Note 4.4 above.

The impaired loan ratio of advances to customers was 0.60% as at 30 June 2021 (31 December 2020: 0.95%).

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2021 (31 December 2020: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.2 Overdue advances to customers and banks (excluding trade bills and receivables)

The gross amount of the Group's advances to customers (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of eligible collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Lifetime ECL credit-impaired impairment HK\$'000
As at 30 June 2021						
Overdue for:						
Six months or less but over three months	21,161	0.00	21,339	8,409	12,752	13,951
One year or less but over six months	637,333	0.13	5,242,411	524,381	112,952	240,833
Over one year	2,130,989	0.44	3,404,656	1,846,133	284,856	1,530,533
	<u>2,789,483</u>	<u>0.57</u>	<u>8,668,406</u>	<u>2,378,923</u>	<u>410,560</u>	<u>1,785,317</u>
As at 31 December 2020						
Overdue for:						
Six months or less but over three months	178,342	0.04	231,613	174,006	4,336	39,379
One year or less but over six months	84,014	0.02	32,267	23,112	60,902	66,501
Over one year	3,495,774	0.76	5,074,917	2,898,523	597,251	2,576,813
	<u>3,758,130</u>	<u>0.82</u>	<u>5,338,797</u>	<u>3,095,641</u>	<u>662,489</u>	<u>2,682,693</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Group's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a movable asset, it should be under the Group's custody, or its whereabouts can be located by the Group.

The eligible collateral is mainly properties, deposits and shares.

There were no advances to banks (excluding trade bills and receivables) which were overdue for over 3 months as at 30 June 2021 and 31 December 2020.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.3 Other overdue assets

	30 June 2021		31 December 2020	
	Accrued interest HK\$'000	Other assets HK\$'000	Accrued interest HK\$'000	Other assets HK\$'000
Six months or less but over three months	408	-	1,931	-
One year or less but over six months	35,354	-	916	-
Over one year	62,882	-	152,073	-
	<u>98,644</u>	<u>-</u>	<u>154,920</u>	<u>-</u>

Other assets refer to trade bills and receivables.

22.4 Rescheduled advances

	30 June 2021 HK\$'000	% of advances to customers	31 December 2020 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	116,450	0.02	143,008	0.03

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in Note 22.2 above.

There were no rescheduled advances to banks or other assets as at 30 June 2021 and 31 December 2020.

22.5 Repossessed assets

There were two repossessed assets of the Group as at 30 June 2021 (31 December 2020: one) with total current market value of HK\$18,330,000 (31 December 2020: HK\$52,670,000). Repossessed assets only comprise properties which the Group has acquired access or control (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

22.6 Cash collateral on securities borrowed and reverse repurchase agreements

In respect of reverse repurchase transactions, there were no collateral held by the Group which were permitted to be sold or repledged as at 30 June 2021 (31 December 2020: Nil). No collateral has been sold or repledged by the Group as at 30 June 2021 and 31 December 2020. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Investment securities

	30 June 2021		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	49,034,813	10,289,251	59,324,064
– Listed outside Hong Kong	47,357,653	27,122,688	74,480,341
– Unlisted	39,781,348	14,965,164	54,746,512
	<u>136,173,814</u>	<u>52,377,103</u>	<u>188,550,917</u>
Equity securities:			
– Unlisted	2,773,139	-	2,773,139
Total investment securities	<u>138,946,953</u>	<u>52,377,103</u>	<u>191,324,056</u>
Market value of listed securities	<u>96,392,466</u>	<u>37,920,342</u>	<u>134,312,808</u>
Debt securities are comprised of the following items:			
– Treasury bills	25,433,683	21,351,162	46,784,845
– Certificates of deposit held	155,285	-	155,285
– Other debt securities	110,584,846	31,025,941	141,610,787
	<u>136,173,814</u>	<u>52,377,103</u>	<u>188,550,917</u>
Investment securities are analysed by category of issuer as follows:			
– Central governments and central banks	44,371,749	22,670,758	67,042,507
– Public sector entities	624,294	1,087,804	1,712,098
– Banks and other financial institutions	38,928,507	11,435,963	50,364,470
– Corporate entities	55,022,403	17,182,578	72,204,981
	<u>138,946,953</u>	<u>52,377,103</u>	<u>191,324,056</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
23 Investment securities (continued)

	31 December 2020		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	49,609,705	10,792,332	60,402,037
– Listed outside Hong Kong	46,766,050	27,174,685	73,940,735
– Unlisted	41,207,007	8,993,818	50,200,825
	<u>137,582,762</u>	<u>46,960,835</u>	<u>184,543,597</u>
Equity securities:			
– Unlisted	2,423,269	–	2,423,269
Total investment securities	<u>140,006,031</u>	<u>46,960,835</u>	<u>186,966,866</u>
Market value of listed securities	<u>96,375,755</u>	<u>38,683,086</u>	<u>135,058,841</u>
Debt securities are comprised of the following items:			
– Treasury bills	28,619,666	20,998,565	49,618,231
– Certificates of deposit held	741,236	385,477	1,126,713
– Other debt securities	108,221,860	25,576,793	133,798,653
	<u>137,582,762</u>	<u>46,960,835</u>	<u>184,543,597</u>
Investment securities are analysed by category of issuer as follows:			
– Central governments and central banks	34,866,592	24,236,599	59,103,191
– Public sector entities	565,375	895,840	1,461,215
– Banks and other financial institutions	44,471,219	10,488,496	54,959,715
– Corporate entities	60,102,845	11,339,900	71,442,745
	<u>140,006,031</u>	<u>46,960,835</u>	<u>186,966,866</u>

24 Investment properties

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Carrying amount at 1 January	131,929	135,234
Net revaluation loss	–	(5,500)
Exchange difference	548	2,195
Carrying amount at 30 June/31 December	<u>132,477</u>	<u>131,929</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment

(a) Reconciliation of carrying amount

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
At 31 December 2020 and 1 January 2021:					
Cost or valuation	922,640	452,813	524,071	2,254,563	4,154,087
Accumulated depreciation and impairment	(306,648)	(322,801)	(359,068)	(1,001,768)	(1,990,285)
At 1 January 2021	615,992	130,012	165,003	1,252,795	2,163,802
Additions	-	10,370	74,232	424,114	508,716
Disposals	-	(16,909)	(34,050)	-	(50,959)
Revaluation	4,192	-	-	-	4,192
Depreciation provided during the period	(8,115)	(17,776)	(27,257)	(245,907)	(299,055)
Exchange rate and other adjustments	33	1	1	(78)	(43)
Net book value at 30 June 2021	612,102	105,698	177,929	1,430,924	2,326,653
At 30 June 2021:					
Cost or valuation	881,272	444,809	580,838	2,582,526	4,489,445
Accumulated depreciation and impairment	(269,170)	(339,111)	(402,909)	(1,151,602)	(2,162,792)
Net book value at 30 June 2021	612,102	105,698	177,929	1,430,924	2,326,653
The analysis of cost or valuation of the above assets is as follows:					
At 30 June 2021:					
At cost	-	444,809	580,838	2,582,526	3,608,173
At valuation	612,102	-	-	-	612,102
	612,102	444,809	580,838	2,582,526	4,220,275

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment (continued)

(a) Reconciliation of carrying amount (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
At 31 December 2019 and 1 January 2020:					
Cost or valuation	870,872	420,743	470,926	1,521,014	3,283,555
Accumulated depreciation and impairment	(263,680)	(283,555)	(341,260)	(498,993)	(1,387,488)
At 1 January 2020	607,192	137,188	129,666	1,022,021	1,896,067
Additions	–	43,346	82,469	776,843	902,658
Disposals	–	(1,369)	(4,213)	(18,429)	(24,011)
Revaluation	845	–	–	–	845
Depreciation provided during the year	(16,760)	(49,156)	(46,727)	(515,391)	(628,034)
Exchange rate and other adjustments	24,715	3	3,808	(12,249)	16,277
Net book value at 31 December 2020	<u>615,992</u>	<u>130,012</u>	<u>165,003</u>	<u>1,252,795</u>	<u>2,163,802</u>
At 31 December 2020:					
Cost or valuation	922,640	452,813	524,071	2,254,563	4,154,087
Accumulated depreciation and impairment	(306,648)	(322,801)	(359,068)	(1,001,768)	(1,990,285)
Net book value at 31 December 2020	<u>615,992</u>	<u>130,012</u>	<u>165,003</u>	<u>1,252,795</u>	<u>2,163,802</u>
The analysis of cost or valuation of the above assets is as follows:					
At 31 December 2020:					
At cost	–	452,813	524,071	2,254,563	3,231,447
At valuation	<u>615,992</u>	–	–	–	<u>615,992</u>
	<u>615,992</u>	<u>452,813</u>	<u>524,071</u>	<u>2,254,563</u>	<u>3,847,439</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment (continued)

(b) Right-of-use assets

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Right-of-use assets – Premises, with remaining lease term of:		
– Not later than 1 year	35,103	40,677
– Later than 1 year and not later than 2 years	53,842	94,649
– Later than 2 years and not later than 5 years	1,287,126	265,430
– More than 5 years	–	844,575
	1,376,071	1,245,331
Right-of-use assets – Other equipment	–	74
Right-of-use assets – Others	54,853	7,390
	1,430,924	1,252,795

26 Other assets

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Interest receivable	2,872,914	3,842,299
Prepayments	328,603	276,139
Settlement accounts	1,328,472	2,091,706
Margin deposits paid	6,374,861	8,598,136
Factoring	1,329,205	1,237,252
Others	1,060,725	652,660
	13,294,780	16,698,192
Less: impairment allowances for other assets		
– 12-month ECL	(60,568)	(64,955)
– Lifetime ECL credit-impaired	(9,358)	(10,317)
	13,224,854	16,622,920

27 Deposits from banks and other financial institutions

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Deposits from banks and other financial institutions		
– Measured at amortised cost	109,457,735	181,978,913
– Measured at fair value through profit or loss	19,726,815	24,019,534
	129,184,550	205,998,447

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$6,441,170,000 as at 30 June 2021 (2020: HK\$6,563,388,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

28 Deposits from customers

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Demand deposits and current accounts	84,011,933	43,609,293
Savings deposits	195,931,889	164,292,903
Time, call and notice deposits	331,136,402	314,581,818
	<u>611,080,224</u>	<u>522,484,014</u>

29 Deferred income tax

The movements in the deferred income tax are as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
At 1 January	657,377	379,507
Credited to profit or loss	179,757	389,229
Credited/(debited) to equity	157,082	(129,872)
Exchange and other adjustments	13,527	18,513
	<u>1,007,743</u>	<u>657,377</u>
At 30 June/31 December	<u>1,007,743</u>	<u>657,377</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	<u>1,007,743</u>	<u>657,377</u>
At 30 June/31 December	<u>1,007,743</u>	<u>657,377</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Subordinated debts measured at amortised cost

There were no subordinated notes as at 30 June 2021 (31 December 2020: Nil).

31 Other liabilities

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Interest payable	3,233,595	3,173,237
Salaries and welfare payable	512,813	619,401
Settlement accounts	7,370,679	5,662,497
Margin deposits received	1,407,367	2,346,944
Factoring	1,329,205	1,237,252
Lease liabilities	1,455,292	1,279,942
Others	1,864,308	1,483,052
	<u>17,173,259</u>	<u>15,802,325</u>
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	272,155	192,678
– Lifetime ECL not credit impaired	1,477	4,053
	<u>17,446,891</u>	<u>15,999,056</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period ended 30 June 2021 (31 December 2020: Nil).

31.1 Lease liabilities

The maturity profile for lease liabilities associated with leased premises and equipment assets is as follows:

As at 30 June 2021	One year or less HK\$'000	Between one year and two years HK\$'000	Between two years and five years HK\$'000	More than five years HK\$'000	Total HK\$'000
Other liabilities					
– lease liabilities	42,371	54,346	1,358,575	–	1,455,292
As at 31 December 2020	One year or less HK\$'000	Between one year and two years HK\$'000	Between two years and five years HK\$'000	More than five years HK\$'000	Total HK\$'000
Other liabilities					
– lease liabilities	41,605	107,386	271,422	859,529	1,279,942

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2020, 31 December 2020, 1 January 2021 & 30 June 2021	<u>2,749,000</u>	<u>44,187,631</u>

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

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

33 Additional equity instruments

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	7,738,332	7,738,332
US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	<u>19,897,375</u>	<u>19,897,375</u>
	<u>27,635,707</u>	<u>27,635,707</u>

On 21 July 2016, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Additional Tier 1 Capital Securities") in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7,738 million net of related issuance costs). The Additional Tier 1 Capital Securities bear a 4.25% distribution until the first call date on 21 July 2021. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (3.135% per annum) every 5 years.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 January 2017. The Bank has the right to cancel distribution payment (subject to the requirement as set out in the terms and conditions of the US\$1 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$1 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank's then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Additional equity instruments (continued)

The Bank has a call option to redeem all the outstanding US\$1 billion Additional Tier 1 Capital Securities from 21 July 2021 or any subsequent distribution payment date thereafter.

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs). The US\$2.536 billion Additional Tier 1 Capital Securities bear a 4.90% distribution until the first call date on 21 March 2023. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (2.25% Per annum) every 5 years.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 September 2018. The Bank has the right to cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank’s then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

The Bank has a call option to redeem all the outstanding US\$2.536 billion Additional Tier 1 Capital Securities from 21 March 2023 or any subsequent distribution payment date thereafter.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed by the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA or a relevant government body, the Bank would become non-viable if there is no written off of the principal. The Additional Tier 1 Capital Securities also contain Hong Kong Bail-in Power. Each holder of the Additional Tier 1 Capital Securities shall be subject to the exercise by the Hong Kong Resolution Authority to any or a combination of the following:

- (a) reduction or cancellation of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities;
- (b) the conversion of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities into shares of the Bank or another person; and/or
- (c) the amendment of the maturity, distribution payment date and/or the distribution amount of the Additional Tier 1 Capital Securities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Reserves

The general reserve of the Group for the period is comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary representing 10% of the profit after tax appropriation and 1% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2021, the Group is not required to make “Regulatory Reserve” (31 December 2020: Nil). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to shareholders of the Group includes a profit of HK\$3,061,645,000 (31 December 2020: HK\$3,822,269,000) which has been dealt with in the accounts of the Bank.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions

Listed out below is a summary of the balances and transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

35.1 Ultimate holding company

	For the six months ended	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Interest income	586,054	1,205,610
Interest expense ⁴	258,789	332,370
Operating income ^{1,2}	142,022	863,796
Operating expenses ^{3,4}	141,294	253,461
	As at	
		31 December
	30 June 2021	2020
	HK\$'000	HK\$'000
Amounts due from	88,783,250	135,475,232
Amounts due to	87,924,909	148,181,819

1. In accordance with the agreements dated 20 June 2017 and 17 December 2018, management fee income was received from the Hong Kong Branch of Industrial and Commercial Bank of China Limited (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008, 31 December 2009 and 19 January 2015, services fees were paid by the ultimate holding company to the Group for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreements with the Bank dated 28 August 2019 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 22 April 2021, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.
4. In accordance with the tenancy agreement with the ultimate holding company dated 20 February 2019, interest expense on lease liabilities and depreciation of right-of-use assets for the leasing of property located in Hong Kong are included in interest expense and operating expenses, respectively.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.1 Ultimate holding company (continued)

(i) *Certificates of deposit issued*

As at 30 June 2021, the bank issued US\$20,000,000 certificates of deposit to the branch of ultimate holding company (first half of 2020: Nil).

(ii) *Committed facilities*

As at 30 June 2021, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2020: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$6,822,509,000 (2020: HK\$6,237,457,000).

(iii) *Undertaking from the ultimate holding company*

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2021 (first half of 2020: HK\$ Nil).

(iv) *Sub-participation of loans*

The Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$1,690,420,000 (first half of 2020: HK\$4,370,472,000). For both the first half of 2021 and 2020, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$2,259,000 (first half of 2020: HK\$3,883,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.2 Fellow subsidiaries

	For the six months ended	
	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Interest income	21,570	109,482
Interest expense	4,663	47,478
Operating income	72,577	336,732
Operating expenses	75,423	142,859
	As at	
	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Amounts due from	4,112,305	5,409,937
Amounts due to	4,144,102	2,274,156

35.3 Associates

	For the six months ended	
	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Interest expense	–	1
Operating income	2	–
	As at	
	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Amounts due to	394	947

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.4 Transactions with other state-controlled entities and government authorities

Transactions with the following state-controlled entities and government authorities are considered as individually significant or collectively significant to the Group:

- The Ministry of Finance of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	For the six months ended	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Interest income	293,092	748,258
Interest expense	3,222	48,954
Operating income	46,044	125,192
Operating expenses	1,957	14,379
	As at	
	30 June 2021	31 December 2020
	HK\$'000	HK\$'000
Amounts due from	24,109,077	53,134,036
Amounts due to	10,342,641	3,469,928

In addition, the Group may also enter into transactions with other state-controlled entities and government authorities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-controlled entities and government authorities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.

35.5 Key management personnel remuneration

Remuneration for key management personnel, including the Bank’s directors’ emoluments, is as follows:

	For the six months ended	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Employee benefits	15,488	19,969

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.6 Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Group, their close family members and companies controlled or significantly influenced by them.

	For the six months ended	
	30 June 2021	30 June 2020
	HK\$'000	HK\$'000
Interest income	279	374
Interest expense	258	1,089
Operating income	4	–
Operating expenses	7	–
	As at	
	30 June 2021	31 December
	HK\$'000	2020
	HK\$'000	HK\$'000
Loans and advances	29,493	36,818
Deposits	65,950	87,949

36 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
36 Transferred financial assets (continued)
Repurchase transactions and securities lending transactions (continued)

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 June 2021		31 December 2020	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Repurchase agreements	2,666,507	2,491,959	4,242,300	3,658,468
Securities lending agreements	3,774,376	3,606,400	2,321,010	2,133,707

Discounted bills transactions

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2021, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$500,621,000 (31 December 2020: Nil).

37 Off-balance sheet exposures
37.1 Contingent liabilities and commitments

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

	30 June 2021	30 June 2021	31 December 2020	31 December 2020
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	8,167,540	5,878,301	6,761,051	5,584,145
Transaction-related contingencies	204,720	88,893	102,310	38,066
Trade-related contingencies	16,495,746	3,154,516	14,850,549	2,901,242
Forward forward deposit placed	1,150,000	230,000	1,482,557	596,511
Other commitments with an original maturity of:				
– Unconditionally cancellable	180,415,733	–	145,714,654	–
– With original maturity of less than one year	500,621	234,842	–	–
– With original maturity of over one year	56,002,567	26,322,710	44,848,872	21,122,500
	262,936,927	35,909,262	213,759,993	30,242,464

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Off-balance sheet exposures (continued)

37.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2021 and 31 December 2020 not provided for in the financial statements are as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Expenditure contracted, but not provided for	10,164	11,526
Expenditure authorised, but not contracted for	–	3,924
	<u>10,164</u>	<u>15,450</u>

37.3 Operating lease commitments

At 30 June 2021, the total future lease payments under non-cancellable operating leases were payable as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Land and buildings		
– Not later than one year	16,571	11,343
– Later than one year and not later than five years	14,421	19,694
	<u>30,992</u>	<u>31,037</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
37 Off-balance sheet exposures (continued)
37.4 Operating lease arrangements

The Group leases its investment properties (see Note 24) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 30 June 2021, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Within one year	3,526	4,432
In the second to fifth years, inclusive	6,644	10,207
	<u>10,170</u>	<u>14,639</u>

During the period, the Group had no unrecognised contingent rentals receivable (31 December 2020: Nil).

38 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

At 30 June 2021	Gross amounts of recognised financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial assets HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
Derivatives financial assets	9,557,325	-	9,557,325	(2,657,207)	(987,675)	5,912,443
Other assets	378,544	-	378,544	(211,719)	-	166,825
	<u>9,935,869</u>	<u>-</u>	<u>9,935,869</u>	<u>(2,868,926)</u>	<u>(987,675)</u>	<u>6,079,268</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

38 Offsetting of financial assets and financial liabilities (continued)

At 30 June 2021	Gross amounts of recognised financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial liabilities HK\$'000	Cash collateral pledged HK\$'000	
Derivatives financial liabilities	4,450,343	-	4,450,343	(2,657,207)	(881,900)	911,236
Other liabilities	286,927	-	286,927	(211,719)	-	75,208
	<u>4,737,270</u>	<u>-</u>	<u>4,737,270</u>	<u>(2,868,926)</u>	<u>(881,900)</u>	<u>986,444</u>

At 31 December 2020	Gross amounts of recognised financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial assets HK\$'000	Cash collateral received HK\$'000	
Derivatives financial assets	8,572,833	-	8,572,833	(1,825,555)	(1,902,084)	4,845,194
Other assets	279,231	-	279,231	(150,401)	-	128,830
	<u>8,852,064</u>	<u>-</u>	<u>8,852,064</u>	<u>(1,975,956)</u>	<u>(1,902,084)</u>	<u>4,974,024</u>

At 31 December 2020	Gross amounts of recognised financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial liabilities HK\$'000	Cash collateral pledged HK\$'000	
Derivatives financial liabilities	2,673,790	-	2,673,790	(1,825,555)	(1,189,486)	(341,251)
Other liabilities	249,023	-	249,023	(150,401)	-	98,622
	<u>2,922,813</u>	<u>-</u>	<u>2,922,813</u>	<u>(1,975,956)</u>	<u>(1,189,486)</u>	<u>(242,629)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
38 Offsetting of financial assets and financial liabilities (continued)

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

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the statement of financial position relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash collateral received/pledged in respect of the transactions described above.

The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the derivative assets, other assets, derivative liabilities and other liabilities presented in the consolidated statement of financial position.

	30 June 2021		31 December 2020	
	Derivative assets HK\$'000	Other assets HK\$'000	Derivative assets HK\$'000	Other assets HK\$'000
Net amount of financial assets after offsetting as stated above	9,557,325	378,544	8,572,833	279,231
Financial assets not in scope of offsetting disclosure	2,785,522	12,846,310	7,892,354	16,343,689
	<u>12,342,847</u>	<u>13,224,854</u>	<u>16,465,187</u>	<u>16,622,920</u>
	30 June 2021		31 December 2020	
	Derivative liabilities HK\$'000	Other liabilities HK\$'000	Derivative liabilities HK\$'000	Other liabilities HK\$'000
Net amount of financial liabilities after offsetting as stated above	4,450,343	286,927	2,673,790	249,023
Financial liabilities not in scope of offsetting disclosure	7,615,924	17,159,964	12,950,407	15,750,033
	<u>12,066,267</u>	<u>17,446,891</u>	<u>15,624,197</u>	<u>15,999,056</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment funds and segregated asset management plans and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in the structured entities sponsored by third party institutions:

	30 June 2021	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	7,980,032	7,980,032
	<u>7,980,032</u>	<u>7,980,032</u>
	31 December 2020	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	7,783,663	7,783,663
	<u>7,783,663</u>	<u>7,783,663</u>

The following table sets out an analysis of the line items in the consolidated statement of financial position as in which assets were recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2021		
	Loans HK\$'000	Financial assets measured at FVTPL HK\$'000	Derivative financial assets HK\$'000
Investment funds	4,250,718	487,991	3,241,323
	<u>4,250,718</u>	<u>487,991</u>	<u>3,241,323</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities (continued)

	31 December 2020		
	Loans HK\$'000	Financial assets measured at FVTPL HK\$'000	Derivative financial assets HK\$'000
Investment funds	4,250,429	470,123	3,063,111
	<u>4,250,429</u>	<u>470,123</u>	<u>3,063,111</u>

40 Note to condensed consolidated statement of cash flows

Reconciliation with the consolidated statement of financial position:

	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Cash and balances with banks and other financial institutions	156,161,899	121,066,590
Placements with banks and other financial institutions	46,599,672	106,247,122
Amounts shown in the consolidated statement of financial position	202,761,571	227,313,712
Less: amounts with original maturity of beyond three months	(51,464,899)	(115,519,290)
Cash and cash equivalents in the condensed consolidated statement of cash flows	<u>151,296,672</u>	<u>111,794,422</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the interim financial disclosure statements and does not form part of the interim financial disclosure statements.

1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules effective from 1 January 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2021	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Bullion Company Limited	Provision of bullion business	7,214	7,210
ICBC (Asia) Futures Company Limited	Inactive	103,075	103,054
ICBC Asset Management (Global) Company Limited*	Provision of asset management services	484,120	441,859
ICBC (Asia) Securities Limited	Provision of securities brokerage services	2,758,969	1,227,751
ICBC (Asia) Trustee Company Limited	Provision of trustee services	134,716	128,995
ICBC (Asia) Financial Services Company Limited	Provision of trustee and company services	–	–
Greater China Fund	Trust fund	5,475,707	5,459,104

* Included a consolidated subsidiary in the name of ICBC (Asia) Investment Management (Shenzhen) Co. Ltd.

As at 30 June 2021, 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
1 Capital adequacy and capital base (continued)

The Group operates a subsidiary in other 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.

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	44,187,631	44,187,631
Share premium arising from CET1 capital instruments	–	–
Retained earnings	63,297,840	60,700,240
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	3,669,860	5,277,301
Disclosed reserves	4,503,651	3,402,337
of which: fair value through other comprehensive income – financial assets/available-for-sale investment reserve	135,761	(223,258)
CET1 Capital before deductions	111,989,122	108,290,208
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	411,944	696,583
Cumulative fair value gain or losses on liabilities of the institution that are fair-valued and result from changes in the own credit risk	–	–
Cumulative fair value gains arising from the revaluation of land and buildings	(618,321)	(618,302)
Regulatory reserve for general banking risk	–	–
Goodwill (net of related deferred tax liability)	(980,154)	(980,154)
Other intangible assets (net of related deferred tax liability)	(17,510)	(19,898)
Deferred tax assets in excess of deferred tax liabilities	(1,006,992)	(656,552)
Cumulative losses below depreciated cost arising from the Institution's holdings of land and building	(252)	(282)
Debit valuation adjustments in respect of derivative contracts	(23,251)	(27,968)
CET1 Capital after deductions	<u>109,754,586</u>	<u>106,683,635</u>
Add:		
Additional Tier 1 Capital after deductions	<u>27,446,047</u>	<u>27,398,509</u>
Tier 1 Capital after deductions	<u>137,200,633</u>	<u>134,082,144</u>
Common Equity Tier 2 ("CET 2") Capital		
Tier 2 capital instruments issued and share premium	–	–
of which: amount that is subject to phase out	–	–
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	278,244	278,236
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (limited to 1.25% of risk-weighted amount)	6,233,084	5,263,127
Tier 2 Capital before deductions	6,511,328	5,541,363
Deductions	–	–
Tier 2 Capital after deductions	<u>6,511,328</u>	<u>5,541,363</u>
Total capital base after deductions	<u><u>143,711,961</u></u>	<u><u>139,623,507</u></u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Risk-weighted assets		
Credit risk	612,425,645	613,307,703
Market risk	25,348,775	22,196,000
Operational risk	25,676,150	26,332,163
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	–	–
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	(340,077)	(340,066)
Total risk-weighted assets	663,110,493	661,495,800
	30 June 2021	31 December 2020
CET1 capital ratio	16.55%	16.13%
Tier 1 capital ratio	20.69%	20.27%
Total capital ratio	21.67%	21.11%
Capital conservation buffer ratio	2.50%	2.50%

To comply with the Banking (Disclosure) Rules, the Group established a section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website (www.icbcasia.com) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital and Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
2 Liquidity Coverage Ratio

The Group complies with the minimum requirement of 100% of Liquidity Coverage Ratio (“LCR”) on a daily basis, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2021	2020
Average liquidity coverage ratio		
– First quarter	223.95%	239.91%
– Second quarter	195.44%	186.61%
– Third quarter	Not applicable	194.37%
– Fourth quarter	Not applicable	207.41%

Liquidity disclosures as required by section 16FK and 103A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

3 Segmental information
3.1 Advances to customers by geographical areas

The Group’s gross advances to customers by country or geographical area after taking into account any risk transfers are as follows:

30 June 2021	Gross advances to customers HK\$’000	Overdue advances for over three months HK\$’000	Impaired loans and advances HK\$’000	Lifetime ECL credit impaired HK\$’000	Non-credit impaired ECL HK\$’000
Hong Kong	292,044,819	1,711,484	1,816,992	1,339,615	2,050,406
Mainland China	167,389,473	1,076,492	1,076,379	475,200	2,896,093
Macau	91,439	–	–	–	80
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	10,145,875	1,242	1,875	1,242	316,918
Others	15,997,857	265	265	265	398,649
	<u>485,669,463</u>	<u>2,789,483</u>	<u>2,895,511</u>	<u>1,816,322</u>	<u>5,662,146</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.1 Advances to customers by geographical areas (continued)

31 December 2020	Gross advances to customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Lifetime ECL credit impaired HK\$'000	Non-credit impaired ECL HK\$'000
Hong Kong	271,719,993	2,225,450	2,589,244	1,672,742	1,615,195
Mainland China	164,452,343	1,531,173	1,830,512	1,225,267	2,457,975
Macau	951,946	–	–	–	37,736
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	10,048,931	1,242	1,972	2,005	318,434
Others	16,233,533	265	–	–	342,792
	<u>463,406,746</u>	<u>3,758,130</u>	<u>4,421,728</u>	<u>2,900,014</u>	<u>4,772,132</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

3.2 International claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.2 International claims (continued)

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

30 June 2021	Banks HK\$ million	Official sector HK\$ million	Non-bank private sector		Total HK\$ million
			Non-bank financial institution HK\$ million	Non-financial private sector HK\$ million	
Developed countries	32,036	15,139	1,635	25,698	74,508
Offshore centres	7,173	89,382	22,172	304,148	422,875
Developing Europe	227	–	–	–	227
Developing Latin America and Caribbean	–	–	–	–	–
Developing Africa and Middle East	121	–	–	1,167	1,288
Developing Asia-Pacific	156,493	33,426	49,071	179,966	418,956
of which: China	155,567	33,426	49,071	175,157	413,221
Others	926	–	–	4,809	5,735
International organisations	–	1,017	–	–	1,017
	196,050	138,964	72,878	510,979	918,871

31 December 2020	Banks HK\$ million	Official sector HK\$ million	Non-bank private sector		Total HK\$ million
			Non-bank financial institution HK\$ million	Non-financial private sector HK\$ million	
Developed countries	43,154	9,761	2,272	27,535	82,722
Offshore centres	5,519	39,530	8,555	307,894	361,498
Developing Europe	90	–	–	–	90
Developing Latin America and Caribbean	–	–	–	–	–
Developing Africa and Middle East	199	–	–	1,216	1,415
Developing Asia-Pacific	200,341	34,559	45,800	175,325	456,025
of which: China	199,785	34,559	45,800	170,863	451,007
Others	556	–	–	4,462	5,018
International organisations	–	753	–	–	753
	249,303	84,603	56,627	511,970	902,503

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 Mainland activities

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the Part 3 of the “Return of Mainland China exposures – MA(BS) 20”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

30 June 2021	On-balance sheet exposure HK\$'000	Contingent Liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	143,474,697	2,014,773	204,947	145,694,417
(b) Local government, local government owned entities and their subsidiaries and JVs	50,029,286	2,787,327	–	52,816,613
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	128,071,963	16,836,891	428,513	145,337,367
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	114,306,034	16,566,988	428,513	131,301,535
(d) Other entities of central government not reported in item (a) above	15,834,632	114,156	–	15,948,788
(e) Other entities of local government not reported in item (b) above	3,238,123	488,534	3,162	3,729,819
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,201,354	3,000	–	5,204,354
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	8,217,117	665,016	143,144	9,025,277
	<u>354,067,172</u>	<u>22,909,697</u>	<u>779,766</u>	<u>377,756,635</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 Mainland activities (continued)

31 December 2020	On-balance sheet exposure HK\$'000	Contingent Liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
Type of counterparties				
(a) Central government, central government owned entities and their subsidiaries and JVs	136,720,191	1,897,212	354,152	138,971,555
(b) Local government, local government owned entities and their subsidiaries and JVs	43,701,181	3,566,357	9,718	47,277,256
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	119,414,612	13,148,865	194,325	132,757,802
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	102,743,121	12,981,934	194,325	115,919,380
(d) Other entities of central government not reported in item (a) above	22,931,215	10,481	–	22,941,696
(e) Other entities of local government not reported in item (b) above	3,950,462	260,108	6,975	4,217,545
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	9,503,347	–	–	9,503,347
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	8,396,835	593,298	119,588	9,109,721
	<u>344,617,843</u>	<u>19,476,321</u>	<u>684,758</u>	<u>364,778,922</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

4 Advances to customers by industry sector

	30 June 2021	30 June 2021	31 December	31 December
	Gross loans	% of secured	Gross loans	% of secured
	and advances	advances	and advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	52,514,104	49.92%	45,642,315	51.66%
– Property investment	28,488,385	53.56%	31,286,257	59.63%
– Financial concerns	30,536,132	3.90%	29,664,994	6.31%
– Stockbrokers	15,248,755	0.06%	3,535,122	0.00%
– Wholesale and retail trade	6,599,953	65.20%	7,838,725	58.61%
– Civil engineering works	1,379,578	32.87%	1,308,375	50.00%
– Manufacturing	4,002,820	33.63%	5,772,572	23.58%
– Transport and transport equipment	22,742,350	56.66%	25,615,562	53.17%
– Electricity and gas	5,119,400	0.00%	1,893,123	0.00%
– Information technology	9,025,130	0.33%	8,602,904	0.77%
– Hotels, boarding houses and catering	2,372,029	39.02%	1,842,626	72.44%
– Recreational activities	48,362	73.34%	578,373	5.19%
– Others	40,327,360	13.19%	18,953,325	25.75%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	290,131	98.59%	315,535	98.38%
– Loans for the purchase of other residential properties	50,818,850	98.88%	49,475,464	99.58%
– Credit card advances	483,311	0.00%	481,576	0.00%
– Others	23,393,868	92.59%	21,931,837	29.43%
Trade finance	7,935,492	28.78%	11,117,776	33.80%
Loans for use outside Hong Kong	184,343,453	32.12%	197,550,285	29.89%
	<u>485,669,463</u>	<u>41.52%</u>	<u>463,406,746</u>	<u>40.89%</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
4 Advances to customers by industry sector (continued)

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers are as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development		
Individually impaired loans	–	–
Overdue loans and advances over three months	–	–
Lifetime ECL credit-impaired	–	–
Lifetime ECL not credit-impaired	256,178	23,756
12-month ECL	237,207	101,183
New impairment allowances charged to profit or loss	368,444	72,379
Impaired loans and advances written off during the period/year	–	–
	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Loans for use in Hong Kong		
Individuals – Loans for the purchase of other residential properties		
Individually impaired loans	6,446	18,886
Overdue loans and advances over three months	–	–
Lifetime ECL credit-impaired	–	–
Lifetime ECL not credit-impaired	642	363
12-month ECL	55,520	50,254
New impairment allowances charged to profit or loss	5,545	34,547
Impaired loans and advances written off during the period/year	–	–
	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Loans for use outside Hong Kong		
Individually impaired loans	2,730,063	2,843,635
Overdue loans and advances over three months	2,644,350	2,704,446
Lifetime ECL credit-impaired	1,667,573	2,093,700
Lifetime ECL not credit-impaired	115,676	167,119
12-month ECL	3,350,931	3,078,730
New impairment allowances charged to profit or loss	(205,368)	2,323,200
Impaired loans and advances written off during the period/year	166,333	196,544

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

5 Currency concentration

Currency concentrations – the table below summarises the net foreign currency positions of the Group. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies. A sensitivity analysis calculates the effect of a reasonably possible movement in a currency rate against the Hong Kong dollar, with all other variables in the income statement and equity held constant.

Group	US\$	RMB	Other foreign	Total
30 June 2021	HK\$'000	HK\$'000	currencies HK\$'000	HK\$'000
Non-structural position				
Spot assets	269,199,780	215,187,085	52,926,848	537,313,713
Spot liabilities	(286,403,837)	(184,185,054)	(50,038,499)	(520,627,390)
Forward purchases	364,911,702	168,273,081	75,125,378	608,310,161
Forward sales	(354,353,694)	(198,049,803)	(77,998,865)	(630,402,362)
Net option position	(4,889,163)	(192,004)	53,989	(5,027,178)
Net long/(short) position	<u>(11,535,212)</u>	<u>1,033,305</u>	<u>68,851</u>	<u>(10,433,056)</u>
Net structural position	<u>213,059</u>	<u>14,311,929</u>	<u>–</u>	<u>14,524,988</u>
Group				
31 December 2020	US\$	RMB	Other foreign	Total
	HK\$'000	HK\$'000	currencies HK\$'000	HK\$'000
Non-structural position				
Spot assets	338,127,366	193,577,613	52,996,552	584,701,531
Spot liabilities	(342,518,680)	(160,652,245)	(57,190,194)	(560,361,119)
Forward purchases	273,721,192	139,626,027	65,906,355	479,253,574
Forward sales	(273,032,469)	(172,211,613)	(61,973,818)	(507,217,900)
Net option position	(4,265,256)	(277,556)	214,771	(4,328,041)
Net long/(short) position	<u>(7,967,847)</u>	<u>62,226</u>	<u>(46,334)</u>	<u>(7,951,955)</u>
Net structural position	<u>212,690</u>	<u>13,589,369</u>	<u>–</u>	<u>13,802,059</u>

Foreign currency exposures include those arising from the trading position. The net option position is calculated on the basis of the delta-weighted position of option contracts. The net structural position of the Group is the structural positions of the Bank's capital investment in overseas subsidiary Chinese Mercantile Bank.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

6 Leverage Ratio

The leverage ratio was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	30 June 2021	31 December 2020
Leverage Ratio	<u>13.40%</u>	<u>13.63%</u>

Leverage ratio disclosures as required by section 16FH of the Banking (Disclosure) Rule are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

7 Countercyclical Capital Buffer Ratio

	30 June 2021	31 December 2020
Countercyclical Capital Buffer Ratio	<u>0.59%</u>	<u>0.58%</u>

The relevant disclosures pursuant to section 16FG of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

8 Net Stable Funding Ratio

	30 June 2021	31 December 2020
Net Stable Funding Ratio	<u>117.40%</u>	<u>119.09%</u>

The relevant disclosures pursuant to section 16FL and 103AB of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.