



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 2022**

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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 2022. The condensed consolidated statement of financial position of the Group as at 30 June 2022 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 2022 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 68 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 2022 was HK\$3,716 million. This represents a 7.55% increase over the same period last year (first half of 2021: HK\$3,455 million). Return on average assets and return on average equity were 0.81% and 6.49% respectively (first half of 2021: 0.75% and 6.21% respectively).

Financial Review

In the first half of 2022, the Group’s consolidated profit attributable to equity holders was HK\$3,716 million, representing an increase of HK\$261 million or 7.55% over HK\$3,455 million achieved for the corresponding period in 2021.

Net interest income decreased by HK\$259 million or 5.52% to HK\$4,435 million. Net fee and commission income decreased by HK\$167 million or 13.44% to HK\$1,076 million.

Non-interest income decreased by HK\$338 million or 21.11% to HK\$1,263 million from HK\$1,601 million for the corresponding period in 2021. The ratio of non-interest income to total operating income was 22.17%, down by 3.26% compared with the corresponding period in 2021.

Operating expenses decreased by HK\$99 million or 5.27% to HK\$1,780 million, compared with HK\$1,879 million for the corresponding period in 2021. The cost to income ratio was 31.23%, up by 1.37% compared with the corresponding period in 2021.

The net write back for expected credit loss on loans and advances for the period was HK\$209 million, out of which HK\$437 million was released as write back for non-credit impaired exposures and HK\$228 million was made as additional provision for credit-impaired exposures.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$926,867 million as at 30 June 2022, representing a decrease of HK\$1,008 million or 0.11% over the financial position as at 31 December 2021.

Customer deposits amounted to HK\$570,968 million as at 30 June 2022 representing an increase of HK\$22,664 million or 4.13%, compared to HK\$548,304 million as at 31 December 2021. Loans and advances also increased by HK\$10,342 million or 2.24% to HK\$472,398 million as at 30 June 2022 compared to HK\$462,056 million as at 31 December 2021.

Total securities investment amounted to HK\$196,835 million as at 30 June 2022, which represents a decrease of HK\$10,975 million or 5.28% compared to HK\$207,810 million as at 31 December 2021.

Total certificates of deposit issued decreased by HK\$907 million or 16.10% to HK\$4,726 million as at 30 June 2022, compared to HK\$5,633 million as at 31 December 2021.

Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 21.55% as at 30 June 2022 from 22.71% as at 31 December 2021. In the first half of 2022, the average liquidity coverage ratio amounted to 182.61% (first half of 2021: 209.70%).

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\$3,302 million to HK\$2,880 million as at 30 June 2022, compared with HK\$6,182 million as at 31 December 2021. The impaired loan ratio was 0.60% as at 30 June 2022 (31 December 2021: 1.32%).

As at 30 June 2022, the cumulative loan impairment allowances amounted to HK\$7,166 million (31 December 2021: HK\$7,648 million), which included impairment allowance of HK\$5,652 million for non-credit impaired exposures and impairment allowance of HK\$1,514 million for credit-impaired exposures.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(UNAUDITED)**

	Notes	Unaudited six months ended 30 June 2022 HK\$'000	Unaudited six months ended 30 June 2021 HK\$'000
Interest income	(6)	7,911,715	8,194,101
Interest expense	(6)	(3,476,222)	(3,500,258)
Net interest income	(6)	4,435,493	4,693,843
Fee and commission income	(7)	1,163,250	1,370,892
Fee and commission expense	(7)	(87,521)	(128,223)
Net fee and commission income	(7)	1,075,729	1,242,669
Net trading income	(8)	223,591	441,509
Net loss on financial assets and liabilities at fair value through profit or loss	(9)	(286,241)	(314,402)
Dividend income from financial investments	(10)	44,705	24,332
Other operating income	(11)	205,712	206,395
Operating income		5,698,989	6,294,346
Operating expenses	(12)	(1,779,890)	(1,879,373)
Operating profit before impairment losses		3,919,099	4,414,973
Net reversal/(charge) for impairment losses on financial assets	(13)	181,422	(667,728)
Operating profit after impairment losses		4,100,521	3,747,245
Net loss on disposal of property, plant and equipment	(14)	(1,865)	(469)
Net gain on disposal of financial assets at fair value through other comprehensive income		520,434	470,643
Net loss on disposal of financial assets at amortised cost		(16,438)	(6,198)
Operating profit		4,602,652	4,211,221
Share of losses of associates		(35,753)	(14,856)
Profit before tax		4,566,899	4,196,365
Income tax expense	(15)	(850,930)	(741,612)
Profit for the period attributable to equity holders		3,715,969	3,454,753

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(UNAUDITED)**

	Unaudited six months ended 30 June 2022 HK\$'000	Unaudited six months ended 30 June 2021 HK\$'000
Profit for the period	<u>3,715,969</u>	<u>3,454,753</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	(434,059)	413,989
Income tax effect	—	—
	<u>(434,059)</u>	<u>413,989</u>
Revaluation surplus on bank premises	4,115	4,192
Income tax effect	(679)	(692)
	<u>3,436</u>	<u>3,500</u>
Items that may be reclassified subsequently to profit or loss:		
Net movement under cash flow hedges due to fair value of hedging instruments recognised and reclassified	237,283	116,346
Income tax effect	44,158	159,600
	<u>281,441</u>	<u>275,946</u>
Change in fair value reserve of financial assets measured at fair value through other comprehensive income	(3,122,849)	287,805
Reserve realised on disposal of financial assets measured at fair value through other comprehensive income	(745,227)	(336,515)
Net reversal for impairment losses on financial assets	66,971	11,317
Income tax effect	636,797	(1,826)
	<u>(3,164,308)</u>	<u>(39,219)</u>
Exchange differences arising from translation of results of foreign subsidiaries	(711,846)	401,207
Other comprehensive (expense)/income for the period, net of tax	<u>(4,025,336)</u>	<u>1,055,423</u>
Total comprehensive (expense)/income for the period, net of tax	<u>(309,367)</u>	<u>4,510,176</u>
Attributable to:		
Equity holders of the Bank	<u>(309,367)</u>	<u>4,510,176</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022
(UNAUDITED)

	Notes	Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
Assets			
Cash and balances with banks and other financial institutions	(17)	145,838,425	175,996,587
Placements with banks and other financial institutions	(18)	75,171,498	49,639,753
Financial assets at fair value through profit or loss	(19)	8,135,680	6,434,654
Derivative financial instruments	(20)	16,167,299	10,974,572
Advances and other accounts	(21)	472,398,429	462,056,166
Financial investments:		194,568,022	207,717,227
– measured at fair value through other comprehensive income	(22)	135,528,649	149,244,455
– measured at amortised cost	(22)	59,039,373	58,472,772
Current income tax assets		5,803	1,621
Investments in associates		270,423	309,611
Goodwill and other intangible assets		1,015,294	1,017,804
Investment properties	(23)	144,015	145,300
Property, plant and equipment	(24)	2,031,305	2,204,495
Deferred income tax assets	(28)	1,642,725	957,381
Other assets	(25)	9,478,013	10,420,017
Total assets		<u>926,866,931</u>	<u>927,875,188</u>
Liabilities			
Deposits from banks and other financial institutions	(26)	159,928,871	189,310,235
Trading liabilities		51,913	–
Derivative financial instruments	(20)	11,818,210	8,584,456
Deposits from customers	(27)	570,967,984	548,303,790
Certificates of deposit issued		4,726,334	5,632,713
Debt securities in issue	(29)	23,729,415	20,546,764
Current income tax liabilities		1,079,852	435,760
Other liabilities	(30)	11,895,671	11,468,742
Total liabilities		<u>784,198,250</u>	<u>784,282,460</u>
Equity			
Share capital	(31)	44,187,631	44,187,631
Retained earnings		69,567,827	66,481,715
Other reserves		1,244,458	5,254,617
Total equity attributable to shareholders of the Bank		114,999,916	115,923,963
Additional equity instruments	(32)	27,668,765	27,668,765
Total equity		<u>142,668,681</u>	<u>143,592,728</u>
Total equity and liabilities		<u>926,866,931</u>	<u>927,875,188</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(UNAUDITED)**

Notes	Share capital HK\$'000	Bank premises revaluation reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Fair value reserve (non- recycling) HK\$'000	Cash flow hedge reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Additional equity instruments HK\$'000	Total HK\$'000
At 1 January 2022	44,187,631	631,599	773,230	(446,804)	(353,590)	701,595	3,948,587	66,481,715	27,668,765	143,592,728
Profit for the period	-	-	-	-	-	-	-	3,715,969	-	3,715,969
Other comprehensive (expense)/income for the period:										
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	(3,122,849)	(434,059)	-	-	-	-	-	(3,556,908)
Reserve realised on disposal of financial assets measured at fair value through other comprehensive income	-	-	(745,227)	-	-	-	-	-	-	(745,227)
Net movement under cash flow hedges due to fair value of hedging instruments recognised and reclassified	-	-	-	-	237,283	-	-	-	-	237,283
Net reversal for impairment losses on financial assets	-	-	66,971	-	-	-	-	-	-	66,971
Revaluation surplus on bank premises	-	4,115	-	-	-	-	-	-	-	4,115
Income tax effect (28)	-	(679)	636,797	-	44,158	-	-	-	-	680,276
Exchange differences arising from translation of results of foreign subsidiaries	-	-	-	-	-	(711,846)	-	-	-	(711,846)
Total comprehensive (expense)/income for the period	-	3,436	(3,164,308)	(434,059)	281,441	(711,846)	-	3,715,969	-	(309,367)
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	15,177	(15,177)	-	-
Distribution paid on additional equity instruments (16.2)	-	-	-	-	-	-	-	(614,680)	-	(614,680)
At 30 June 2022	<u>44,187,631</u>	<u>635,035</u>	<u>(2,391,078)</u>	<u>(880,863)</u>	<u>(72,149)</u>	<u>(10,251)</u>	<u>3,963,764</u>	<u>69,567,827</u>	<u>27,668,765</u>	<u>142,668,681</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(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 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)
Net movement under cash flow hedges due to fair value of hedging instruments recognised and reclassified	-	-	-	-	116,346	-	-	-	-	116,346
Net impairment losses on financial assets	-	-	11,317	-	-	-	-	-	-	11,317
Revaluation surplus on bank premises	-	4,192	-	-	-	-	-	-	-	4,192
Income tax effect	-	(692)	(1,826)	-	159,600	-	-	-	-	157,082
Exchange differences arising from translation of results of foreign subsidiaries	-	-	-	-	-	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 CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(UNAUDITED)**

	Unaudited six months ended 30 June 2022 HK\$'000	Unaudited six months ended 30 June 2021 HK\$'000
Net cash flows (used in)/generated from operating activities	(53,561,087)	25,685,296
Cash flows from investing activities:		
Purchase of intangible assets	–	(1,826)
Purchase of property, plant and equipment	(24,082)	(84,602)
Proceeds from disposal of property, plant and equipment	13,868	50,490
Dividend income from listed financial assets at fair value through profit or loss	43,525	23,052
Dividend income from unlisted equity securities measured at fair value through other comprehensive income	1,180	1,280
Net cash flows generated from/(used in) investing activities	<u>34,491</u>	<u>(11,606)</u>
Cash flows from financing activities:		
Distribution paid on additional equity instruments	(614,680)	(647,214)
Mature of debt securities in issue measured at amortised cost	–	(1,549,741)
Issuance of debt securities measured at amortised cost	3,515,330	–
Interest paid on debt securities in issue	(21,301)	(20,369)
Payment of lease liabilities	(247,660)	(262,928)
Net cash flows generated from/(used in) financing activities	<u>2,631,689</u>	<u>(2,480,252)</u>
Net (decrease)/increase in cash and cash equivalents	(50,894,907)	23,193,438
Cash and cash equivalents at 1 January	180,275,810	127,767,547
Effects of foreign exchange differences	(713,578)	335,687
Cash and cash equivalents at 30 June	<u>128,667,325</u>	<u>151,296,672</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”).

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

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 2021.

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 2021.

The financial information relating to the financial year ended 31 December 2021 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 2021 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.

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 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 revised HKFRSs and HKASs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

- Amendments to HKFRS 3, *Reference to the Conceptual Framework*
- Amendments to HKAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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 2022	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	82,044,835	63,793,590	-	-	-	-	-	145,838,425
Placements with and advances to banks and other financial institutions	-	-	22,201,324	52,970,174	-	-	-	75,171,498
Financial assets at fair value through profit or loss								
– treasury bills	-	681,348	459,953	-	-	2,308	-	1,143,609
– certificates of deposit held	-	-	-	812,731	-	-	-	812,731
– other debt securities	-	92,614	104,833	3,912	91,139	18,073	-	310,571
– investment funds	-	-	-	-	-	-	5,333,410	5,333,410
– others	-	-	-	492,470	-	-	42,889	535,359
Derivative financial instruments	83,268	1,044,309	3,894,408	4,103,254	3,252,899	3,789,161	-	16,167,299
Advances and other accounts	4,139,139	47,137,373	29,300,453	90,326,584	199,986,414	101,508,466	-	472,398,429
Financial investments measured at FVTOCI								
– treasury bills	-	3,892,680	19,801,520	552,504	10,593,616	4,609,052	-	39,449,372
– other debt securities	-	1,704,343	1,065,511	16,560,747	46,419,436	27,599,657	-	93,349,694
– equity securities	-	-	-	-	-	-	2,729,583	2,729,583
Financial investments measured at amortised cost								
– treasury bills	-	-	23,441	304,614	14,483,053	1,194,846	-	16,005,954
– certificates of deposit held	-	-	-	397,251	-	-	-	397,251
– other debt securities	-	-	-	6,301,172	20,531,949	15,803,047	-	42,636,168
Investments in associates	-	-	-	-	-	-	270,423	270,423
Goodwill and other intangible assets	-	-	-	-	-	-	1,015,294	1,015,294
Investment properties	-	-	-	-	-	-	144,015	144,015
Property, plant and equipment	-	-	-	-	-	-	2,031,305	2,031,305
Other assets, including current and deferred income tax assets	98,526	1,790,818	1,186,264	3,529,072	3,438,968	-	1,082,893	11,126,541
Total assets	86,365,768	120,137,075	78,037,707	176,354,485	298,797,474	154,524,610	12,649,812	926,866,931
Liabilities								
Deposits from banks and other financial institutions	24,574,698	39,776,876	20,112,230	69,973,462	5,491,605	-	-	159,928,871
Trading liabilities	-	51,913	-	-	-	-	-	51,913
Derivative financial instruments	-	1,457,052	818,647	3,721,815	3,112,029	2,708,667	-	11,818,210
Deposits from customers	241,144,837	103,423,775	115,321,459	95,683,380	15,393,958	575	-	570,967,984
Certificates of deposit issued	-	-	4,726,334	-	-	-	-	4,726,334
Debt securities in issue	-	-	3,498,332	4,799,926	15,431,157	-	-	23,729,415
Other liabilities, including current and deferred income tax liabilities	2,318,954	4,167,604	1,373,397	3,800,845	1,208,755	82,225	23,743	12,975,523
Total liabilities	268,038,489	148,877,220	145,850,399	177,979,428	40,637,504	2,791,467	23,743	784,198,250
Net liquidity gap	(181,672,721)	(28,740,145)	(67,812,692)	(1,624,943)	258,159,970	151,733,143	12,626,069	142,668,681

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 2021	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	108,311,622	67,684,965	-	-	-	-	-	175,996,587
Placements with banks and other financial institutions	-	-	28,718,146	20,921,607	-	-	-	49,639,753
Financial assets at fair value through profit or loss								
– other debt securities	-	-	-	24,475	68,332	-	-	92,807
– investment funds	-	-	-	-	-	-	5,794,977	5,794,977
– others	-	-	-	477,019	-	-	69,851	546,870
Derivative financial instruments	90,727	1,435,063	909,591	5,081,804	1,404,301	2,053,086	-	10,974,572
Advances and other accounts	8,291,033	32,545,226	35,964,849	90,368,688	189,151,354	105,735,016	-	462,056,166
Financial investments measured at FVTOCI								
– treasury bills	-	7,399,895	21,933,760	1,857,755	4,605,561	3,966,964	-	39,763,935
– other debt securities	-	423,279	1,988,806	12,455,529	57,630,161	33,747,130	-	106,244,905
– equity securities	-	-	-	-	-	-	3,235,615	3,235,615
Financial investments measured at amortised cost								
– treasury bills	-	2,577,800	-	575,958	9,013,019	3,859,779	-	16,026,556
– other debt securities	-	54,568	2,415,711	3,533,164	21,209,096	15,233,677	-	42,446,216
Investments in associates	-	-	-	-	-	-	309,611	309,611
Goodwill and other intangible assets	-	-	-	-	-	-	1,017,804	1,017,804
Investment properties	-	-	-	-	-	-	145,300	145,300
Property, plant and equipment	-	-	-	-	-	-	2,204,495	2,204,495
Other assets, including current and deferred income tax assets	55,880	1,459,479	498,735	2,870,512	2,577,007	342,156	3,575,250	11,379,019
Total assets	116,749,262	113,580,275	92,429,598	138,166,511	285,658,831	164,937,808	16,352,903	927,875,188
Liabilities								
Deposits from banks and other financial institutions	26,909,047	55,452,926	31,105,805	61,929,257	13,913,200	-	-	189,310,235
Derivative financial instruments	-	1,520,150	876,571	2,113,696	2,102,499	1,971,540	-	8,584,456
Deposits from customers	231,105,146	94,720,602	100,544,073	102,388,070	19,545,899	-	-	548,303,790
Certificates of deposit issued	-	935,598	4,697,115	-	-	-	-	5,632,713
Debt securities in issue	-	-	-	6,653,187	13,893,577	-	-	20,546,764
Other liabilities, including current and deferred income tax liabilities	2,512,195	3,149,494	1,058,264	3,686,882	1,326,963	84,396	86,308	11,904,502
Total liabilities	260,526,388	155,778,770	138,281,828	176,771,092	50,782,138	2,055,936	86,308	784,282,460
Net liquidity gap	(143,777,126)	(42,198,495)	(45,852,230)	(38,604,581)	234,876,693	162,881,872	16,266,595	143,592,728

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 2022	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,808,550	–	4,808,550
Structured foreign exchange contracts	–	275	–	275
Currency swaps	–	963,467	–	963,467
Foreign exchange options	–	234,430	–	234,430
Interest rate swaps	–	6,354,062	–	6,354,062
Interest rate futures	–	383	–	383
Equity swaps	–	3,599,736	–	3,599,736
Commodity swaps	–	206,396	–	206,396
	–	16,167,299	–	16,167,299
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	199,018	–	199,018
Trade bills	–	14,920,689	–	14,920,689
	–	15,119,707	–	15,119,707
Loans and advances to customers measured at fair value through profit or loss				
	–	4,293,053	–	4,293,053
Financial assets held for trading				
Debt securities	–	2,266,911	–	2,266,911
Financial assets mandatorily measured at fair value through profit or loss				
Investment funds	–	5,333,410	–	5,333,410
Others	–	535,359	–	535,359
	–	5,868,769	–	5,868,769

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

30 June 2022	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial investments measured at fair value through other comprehensive income				
Debt securities	–	132,799,066	–	132,799,066
Equity securities	–	–	2,729,583	2,729,583
	–	132,799,066	2,729,583	135,528,649
Total financial assets	–	176,514,805	2,729,583	179,244,388
Financial liabilities				
Deposits from banks and other financial institutions designated at fair value through profit or loss				
	–	13,649,924	–	13,649,924
Derivative financial instruments				
Forward foreign exchange contracts	–	5,195,910	–	5,195,910
Structured foreign exchange contracts	–	2,414	–	2,414
Currency swaps	–	911,252	–	911,252
Foreign currency options	–	185,132	–	185,132
Interest rate swaps	–	4,964,594	–	4,964,594
Interest rate futures	–	630	–	630
Equity swaps	–	282,430	–	282,430
Commodity swaps	–	275,848	–	275,848
	–	11,818,210	–	11,818,210
Trading liabilities	–	51,913	–	51,913
Debt securities in issue designated at fair value through profit or loss	–	8,101,223	–	8,101,223
Total financial liabilities	–	33,621,270	–	33,621,270

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

31 December 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	–	3,225,861	–	3,225,861
Structured foreign exchange contracts	–	611	–	611
Currency swaps	–	757,476	–	757,476
Foreign exchange options	–	185,910	–	185,910
Interest rate swaps	–	3,120,914	–	3,120,914
Interest rate futures	–	331	–	331
Equity swaps	–	3,666,495	–	3,666,495
Commodity swaps	–	16,974	–	16,974
	–	10,974,572	–	10,974,572
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	595,664	–	595,664
Trade bills	–	10,441,078	–	10,441,078
	–	11,036,742	–	11,036,742
Loans and advances to customers measured at fair value through profit and loss				
	–	4,274,648	–	4,274,648
Financial assets held for trading				
Debt securities	–	92,807	–	92,807
Financial assets mandatorily measured at fair value through profit or loss				
Investment funds	–	5,794,977	–	5,794,977
Others	–	546,870	–	546,870
	–	6,341,847	–	6,341,847

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair value of financial assets and liabilities (continued)

31 December 2021	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial investments measured at fair value through other comprehensive income				
Debt securities	–	146,008,840	–	146,008,840
Equity securities	–	–	3,235,615	3,235,615
	–	146,008,840	3,235,615	149,244,455
Total financial assets	–	178,729,456	3,235,615	181,965,071
Financial liabilities				
Deposits from banks and other financial institutions designated at fair value through profit or loss				
	–	15,279,584	–	15,279,584
Derivative financial instruments				
Forward foreign exchange contracts	–	3,231,625	–	3,231,625
Structured foreign exchange contracts	–	3,682	–	3,682
Currency swaps	–	635,357	–	635,357
Foreign currency options	–	182,935	–	182,935
Interest rate swaps	–	3,718,563	–	3,718,563
Interest rate futures	–	54	–	54
Equity swaps	–	456,510	–	456,510
Commodity swaps	–	355,730	–	355,730
	–	8,584,456	–	8,584,456
Debt securities in issue designated at fair value through profit or loss	–	7,960,057	–	7,960,057
Total financial liabilities	–	31,824,097	–	31,824,097

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

Information about significant unobservable inputs in Level 3 valuations

Type of assets	Valuation techniques	Significant unobservable input(s)	Range	
			At 30 June 2022	At 31 December 2021
Financial assets measured at FVTOCI – Unlisted equity securities	Discounted cash flow model	Discount rate	6.07%–10%	6.07%–10%
	Market-comparable approach	Equity Value/Earnings before interest, taxes and amortisation (“EBITA”) multiple	19.7–23.6	16.1–34.7
		Price-to-Sales multiples	1.5–36.9	2.2–55.1
		Marketability discount	20%–30%	20%–30%
	Net asset value	N/A	N/A	N/A

Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions:

	At 30 June 2022	
	Effect recorded directly in equity Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at fair value through other comprehensive income	393,606	(375,121)
	393,606	(375,121)
	At 31 December 2021	
	Effect recorded directly in equity Favourable HK\$'000	(Unfavourable) HK\$'000
Financial investments measured at fair value through other comprehensive income	416,910	(414,285)
	416,910	(414,285)

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 2022 HK\$'000	Addition HK\$'000	Total (losses) recorded in equity HK\$'000	At 30 June 2022 HK\$'000
Financial assets				
Financial investments measured at FVTOCI				
– Equities	3,235,615	114,922	(620,954)	2,729,583
Total Level 3 financial assets	<u>3,235,615</u>	<u>114,922</u>	<u>(620,954)</u>	<u>2,729,583</u>
	At 1 January 2021 HK\$'000	Addition HK\$'000	Total gains recorded in equity HK\$'000	At 31 December 2021 HK\$'000
Financial assets				
Financial investments measured at FVTOCI				
– Equities	2,423,269	501,107	311,239	3,235,615
Total Level 3 financial assets	<u>2,423,269</u>	<u>501,107</u>	<u>311,239</u>	<u>3,235,615</u>

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (30 June 2021: 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. It is noted that the total fair value is not materially different from the total carrying value.

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

	Note	At 30 June 2022		At 31 December 2021	
		Carrying value	Fair value	Carrying value	Fair value
		HK'000	HK'000	HK'000	HK'000
Financial investments measured at amortised cost	(22)	<u>59,039,373</u>	<u>56,895,725</u>	<u>58,472,772</u>	<u>59,076,838</u>

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 2022

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Bank premises and properties	601,202	–	–	601,202
Investment properties	144,015	–	–	144,015

Fair value at 31 December 2021

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Bank premises and properties	597,666	–	–	597,666
Investment properties	145,300	–	–	145,300

During the half years ended 30 June 2022 and 30 June 2021, 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 2022. The valuations on the Banks 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 2022	597,666
Addition for the period	–
Exchange adjustment	7,814
Depreciation charge for the period	(8,393)
Surplus on revaluation	4,115
	<u>601,202</u>
At 30 June 2022	<u>601,202</u>
Investment properties:	HK\$'000
At 1 January 2022	145,300
Fair value adjustment	–
Exchange adjustment	(1,285)
	<u>144,015</u>
At 30 June 2022	<u>144,015</u>
Bank premises and properties:	HK\$'000
At 1 January 2021	615,992
Transfer out	(24,455)
Exchange adjustment	(6,569)
Depreciation charge for the year	(16,163)
Surplus on revaluation	28,861
	<u>597,666</u>
At 31 December 2021	<u>597,666</u>
Investment properties:	HK\$'000
At 1 January 2021	131,929
Transferred from bank premises and properties	24,455
Fair value adjustment	(12,234)
Exchange adjustment	1,150
	<u>145,300</u>
At 31 December 2021	<u>145,300</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 2022	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 2022	5,462,576	745,908	1,439,567	7,648,051
Transfer to 12-month ECL	6,717	(6,717)	–	–
Transfer to Lifetime ECL not credit-impaired	(55,920)	55,920	–	–
Transfer to Lifetime ECL credit-impaired	(5,887)	(60,683)	66,570	–
Net remeasurement of loss allowance (including exchange adjustments)	(1,208,362)	176,076	568,306	(463,980)
New financial assets originated or purchased	1,786,093	24,640	3,893	1,814,626
Financial assets that have been derecognised	(1,178,319)	(90,139)	(452,961)	(1,721,419)
Write-off	–	–	(123,231)	(123,231)
Recoveries of amount previously written off	–	–	11,921	11,921
At 30 June 2022	<u>4,806,898</u>	<u>845,005</u>	<u>1,514,065</u>	<u>7,165,968</u>
Comprising of:				
Advances to customers	4,771,508	845,000	1,514,065	7,130,573
Advances to banks	12,986	–	–	12,986
Trade bills	22,404	5	–	22,409
	<u>4,806,898</u>	<u>845,005</u>	<u>1,514,065</u>	<u>7,165,968</u>

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

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

31 December 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	29,462	(29,462)	–	–
Transfer to Lifetime ECL not credit-impaired	(162,477)	162,477	–	–
Transfer to Lifetime ECL credit-impaired	(11,276)	(50,379)	61,655	–
Net remeasurement of loss allowance (including exchange adjustments)	244,642	279,761	633,972	1,158,375
New financial assets originated or purchased	2,536,837	27,736	20,389	2,584,962
Financial assets that have been derecognised	(1,408,754)	(220,861)	(269,872)	(1,899,487)
Write off	–	–	(1,912,380)	(1,912,380)
Recoveries of amount previously written off	–	–	5,789	5,789
At 31 December 2021	<u>5,462,576</u>	<u>745,908</u>	<u>1,439,567</u>	<u>7,648,051</u>
Comprising of:				
Advances to customers	5,417,022	745,891	1,439,567	7,602,480
Advances to banks	40,382	–	–	40,382
Trade bills	5,172	17	–	5,189
	<u>5,462,576</u>	<u>745,908</u>	<u>1,439,567</u>	<u>7,648,051</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from Expected Credit Loss (“ECL”) (continued)

Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income

30 June 2022	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 2022	2,942	1,683	–	4,625
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)	(1,028)	–	–	(1,028)
New financial assets originated or purchased	–	–	–	–
Financial assets that have been derecognised	–	(1,683)	–	(1,683)
At 30 June 2022	<u>1,914</u>	<u>–</u>	<u>–</u>	<u>1,914</u>
31 December 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	20,488	–	–	20,488
Transfer to 12-month ECL	–	–	–	–
Transfer to Lifetime ECL not credit-impaired	(4,835)	4,835	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	2,304	(3,152)	–	(848)
New financial assets originated or purchased	506	–	–	506
Financial assets that have been derecognised	(15,521)	–	–	(15,521)
At 31 December 2021	<u>2,942</u>	<u>1,683</u>	<u>–</u>	<u>4,625</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from Expected Credit Loss (“ECL”) (continued)
Financial investments measured at amortised cost

30 June 2022	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 2022	71,909	–	–	71,909
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)	(21,411)	–	–	(21,411)
New financial assets originated or purchased	6,328	–	–	6,328
Financial assets that have been derecognised	(1,406)	–	–	(1,406)
At 30 June 2022	<u>55,420</u>	<u>–</u>	<u>–</u>	<u>55,420</u>
	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
31 December 2021	27,267	2,291	–	29,558
Transfer to 12-month ECL	1,297	(1,297)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	2,579	(994)	–	1,585
New financial assets originated or purchased	45,322	–	–	45,322
Financial assets that have been Derecognised	(4,556)	–	–	(4,556)
At 31 December 2021	<u>71,909</u>	<u>–</u>	<u>–</u>	<u>71,909</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from Expected Credit Loss (“ECL”) (continued)

Financial investments measured at fair value through other comprehensive income

30 June 2022	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 2022	159,257	4,500	–	163,757
Transfer to 12-month ECL	–	–	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	(4,500)	4,500	–
Net remeasurement of loss allowance (including exchange adjustments)	(39,465)	–	125,619	86,154
New financial assets originated or purchased	23,325	–	–	23,325
Financial assets that have been derecognised	(39,796)	–	–	(39,796)
At 30 June 2022	<u>103,321</u>	<u>–</u>	<u>130,119</u>	<u>233,440</u>
31 December 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	115,461	466	–	115,927
Transfer to 12-month ECL	–	–	–	–
Transfer to Lifetime ECL not credit-impaired	(4,500)	4,500	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	27,263	–	–	27,263
New financial assets originated or purchased	48,940	–	–	48,940
Financial assets that have been derecognised	(27,907)	(466)	–	(28,373)
At 31 December 2021	<u>159,257</u>	<u>4,500</u>	<u>–</u>	<u>163,757</u>

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

30 June 2022	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 2022	36,066	–	–	36,066
Net remeasurement of loss allowance (including exchange adjustments)	(9,653)	–	–	(9,653)
New financial assets originated or purchased	41,355	–	–	41,355
Financial assets that have been derecognised	(20,489)	–	–	(20,489)
At 30 June 2022	<u>47,279</u>	<u>–</u>	<u>–</u>	<u>47,279</u>
31 December 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)	15,102	–	–	15,102
New financial assets originated or purchased	20,708	–	–	20,708
Financial assets that have been derecognised	(35,233)	–	–	(35,233)
At 31 December 2021	<u>36,066</u>	<u>–</u>	<u>–</u>	<u>36,066</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from Expected Credit Loss (“ECL”) (continued)

Loan commitments and financial guarantee contracts

30 June 2022	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 2022	296,441	11,563	–	308,004
Transfer to 12-month ECL	23	(23)	–	–
Transfer to Lifetime ECL not credit-impaired	(60)	60	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(17,482)	4,238	–	(13,244)
New financial assets originated or purchased	190,513	16,884	–	207,397
Financial assets that have been derecognised	(187,089)	(10,820)	–	(197,909)
At 30 June 2022	<u>282,346</u>	<u>21,902</u>	<u>–</u>	<u>304,248</u>
31 December 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	1	(1)	–	–
Transfer to Lifetime ECL not credit-impaired	(9,997)	9,997	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(28,259)	(1,414)	–	(29,673)
New financial assets originated or purchased	241,325	791	–	242,116
Financial assets that have been derecognised	(99,307)	(1,863)	–	(101,170)
31 December 2021	<u>296,441</u>	<u>11,563</u>	<u>–</u>	<u>308,004</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 2022	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	162,970	730,937	506,811	831,399	569,597	268,776	1,341,246	23,757	4,435,493
Fee and commission income	17,739	275,598	207,994	383,750	5	145,467	64,958	67,739	1,163,250
Fee and commission expense	-	(2,797)	(4,712)	(71,446)	-	(778)	(3,512)	(4,276)	(87,521)
Net fee and commission income	17,739	272,801	203,282	312,304	5	144,689	61,446	63,463	1,075,729
Net trading income/(expense)	8,121	49,612	87,376	107,544	210,852	27,403	(392,666)	125,349	223,591
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(78,544)	8,166	2,078	(217,941)	(286,241)
Dividend income from financial investments	-	-	-	-	-	-	-	44,705	44,705
Other operating income	-	-	67	451	-	3,650	7,613	193,931	205,712
Operating income	188,830	1,053,350	797,536	1,251,698	701,910	452,684	1,019,717	233,264	5,698,989
Operating expenses	(42,046)	(121,089)	(211,988)	(719,668)	(168,608)	(129,658)	(228,525)	(158,308)	(1,779,890)
Operating profit before impairment losses	146,784	932,261	585,548	532,030	533,302	323,026	791,192	74,956	3,919,099
Write back/(charge for) impairment losses on financial assets	15,584	(33,639)	114,075	(27,352)	(102,974)	(1,706)	(192,149)	409,583	181,422
Operating profit after impairment losses	162,368	898,622	699,623	504,678	430,328	321,320	599,043	484,539	4,100,521
Net (loss)/gain on disposal of property, plant and equipment	-	-	-	(1,890)	(3)	-	-	28	(1,865)
Net gain on disposal of financial assets designated at fair value through other comprehensive income	-	-	-	-	484,445	-	35,989	-	520,434
Net loss on disposal of financial assets designated at amortised cost	-	-	-	-	(16,438)	-	-	-	(16,438)
Operating profit	162,368	898,622	699,623	502,788	898,332	321,320	635,032	484,567	4,602,652
Share of loss of associates	-	-	-	-	-	-	-	(35,753)	(35,753)
Profit before tax	162,368	898,622	699,623	502,788	898,332	321,320	635,032	448,814	4,566,899
Segment assets	31,435,863	137,537,449	87,586,577	95,114,533	180,487,335	19,814,164	146,475,217	228,145,370	926,596,508
Investments in associates	-	-	-	-	-	-	-	270,423	270,423
Total assets	31,435,863	137,537,449	87,586,577	95,114,533	180,487,335	19,814,164	146,475,217	228,415,793	926,866,931
Total liabilities	31,026,266	136,667,313	86,869,859	95,104,430	184,657,086	37,687,051	128,311,216	83,875,029	784,198,250
Capital expenditure	60	151	471	75,194	388	210	2,462	40,334	119,270
Depreciation and amortisation charge	3,312	4,463	14,447	111,855	7,378	3,683	28,849	111,640	285,627

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 (loss)/gain 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 (Charge for)/write back impairment losses on financial assets	156,234	842,708	565,185	505,915	698,527	375,647	905,915	364,842	4,414,973
	(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
Net loss on disposal of property, plant and equipment	–	–	(89)	(330)	–	–	–	(50)	(469)
Net gain on disposal of financial assets at fair value through other comprehensive income	–	–	–	–	462,363	–	8,280	–	470,643
Net loss on disposal of financial assets designated at amortised cost	–	–	–	–	(6,198)	–	–	–	(6,198)
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)

5.2 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 2022

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
Operating income	4,679,272	1,019,717	5,698,989
Profit before tax	3,930,883	636,016	4,566,899
Total assets	780,394,129	146,472,802	926,866,931
Total liabilities	655,889,935	128,308,315	784,198,250
Contingent liabilities and commitments	193,462,077	50,608,384	244,070,461
Capital expenditure during the period	116,808	2,462	119,270

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	148,177	312,293
Placements with banks and other financial institutions	465,478	481,299
Advances and other accounts	5,128,874	5,269,002
Financial investments measured at fair value through other comprehensive income	1,457,649	1,515,621
Financial investments measured at amortised cost	711,537	615,886
	<u>7,911,715</u>	<u>8,194,101</u>
Interest expense on:		
Deposits from banks and other financial institutions	998,814	1,125,221
Deposits from customers	1,932,059	1,702,396
Certificates of deposit issued	13,944	6,922
Debt securities in issue	253,293	298,707
Others	278,112	367,012
	<u>3,476,222</u>	<u>3,500,258</u>
Net interest income	<u><u>4,435,493</u></u>	<u><u>4,693,843</u></u>

Note: Interest expense on lease liabilities is HK\$11,659,064 (first half of 2021: HK\$13,471,644).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Loans, overdrafts and guarantees	551,592	615,210
Securities and brokerage	219,219	294,436
Trade finance	48,650	55,744
Credit card	113,440	128,668
Remittance	61,603	65,506
Insurance	71,463	109,578
Other retail and commercial banking services	16,708	13,004
Securities arrangement fee	27,679	18,063
Others	52,896	70,683
	<hr/>	<hr/>
Fee and commission income	1,163,250	1,370,892
Fee and commission expense	(87,521)	(128,223)
	<hr/>	<hr/>
Net fee and commission income	<u>1,075,729</u>	<u>1,242,669</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 fair value through profit or loss	600,242	670,953
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	28,727	30,128
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	113,440	128,668
– term loans	140,817	178,750
– syndication loans	304,365	288,378
– securities and brokerage	219,219	294,436

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income/(loss)

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Debt securities – Financial assets and liabilities held for trading	19,631	9,814
– Financial investments at FVTOCI	(25,293)	(308,490)
Derivatives	(110,237)	509,742
Foreign exchange	359,366	229,035
	<u>243,467</u>	<u>440,101</u>
(Loss)/gain from hedging activities		
Fair value hedges		
– Net loss on hedged items attributable to the hedged risk	(1,634,990)	(732,663)
– Net gain on hedging instruments	1,615,114	734,071
	<u>(19,876)</u>	<u>1,408</u>
Total net trading income	<u>223,591</u>	<u>441,509</u>

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

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Net (loss)/ gain on financial assets at fair value through profit or loss	(195,252)	48,230
Net loss on financial liabilities at fair value through profit or loss	(90,989)	(362,632)
Total net loss on financial assets and liabilities at fair value through profit or loss	<u>(286,241)</u>	<u>(314,402)</u>

10 Dividend income from financial investments

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	1,180	1,280
Dividend income from listed financial assets at fair value through profit or loss	43,525	23,052
Total dividend income from financial investments	<u>44,705</u>	<u>24,332</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Management fee income	188,850	188,850
Rental income	7,682	12,157
Others	9,180	5,388
	<u>205,712</u>	<u>206,395</u>

12 Operating expenses

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Staff costs		
– Salaries and other costs	1,042,252	1,094,933
– Retirement benefit costs	53,962	53,514
	<u>1,096,214</u>	<u>1,148,447</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	19,329	19,792
– Others	95,709	120,339
	<u>115,038</u>	<u>140,131</u>
Depreciation and amortisation expenses		
– Depreciation of right-of-use assets	231,013	245,907
– Depreciation of other fixed assets	51,623	53,148
– Amortisation of intangible assets	2,991	4,222
	<u>285,627</u>	<u>303,277</u>
Auditor's remuneration	3,240	3,240
General administration expenses	24,009	31,750
Business promotion expenses	48,556	34,825
Communication expenses	49,297	51,347
Other operating expenses	157,909	166,356
	<u>1,779,890</u>	<u>1,879,373</u>
Total operating expenses	<u>1,779,890</u>	<u>1,879,373</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Net reversal/(charge) for impairment losses on financial assets

	30 June 2022	30 June 2021
	HK\$'000	HK\$'000
Net reversal/(charge) for impairment losses on loans and advances	209,188	(582,135)
Net charge for impairment losses on other financial assets	(27,766)	(85,593)
	<u>181,422</u>	<u>(667,728)</u>

14 Net loss on disposal of property, plant and equipment

	30 June 2022	30 June 2021
	HK\$'000	HK\$'000
Net loss on disposal of property, plant and equipment	(1,895)	(473)
Write-back of revaluation deficits of bank premises	30	4
	<u>(1,865)</u>	<u>(469)</u>

15 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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 condensed consolidated income statement represents:

	30 June 2022	30 June 2021
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	650,133	656,816
– Provision for overseas tax for the period	230,733	120,485
(Over)/under provision in respect of prior periods	(696)	144,068
Deferred taxation	(29,240)	(179,757)
	<u>850,930</u>	<u>741,612</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 2022 HK\$'000	30 June 2021 HK\$'000
Profit before tax	4,566,899	4,196,365
Calculated at a tax rate of 16.5% (2021: 16.5%)	753,538	692,400
Effect of different tax rates in other countries and regions	101,537	71,328
Effect of income not subject to tax	(57,562)	(102,988)
Effect of expenses not deductible for tax purposes	27,952	13,020
(Over)/under provision in respect of prior periods	(696)	144,068
Share of tax of associates	5,899	2,451
Other	20,262	(78,667)
	<u>850,930</u>	<u>741,612</u>
Tax charge		

16 Dividends/distributions

16.1 Dividends attributable to ordinary shareholders in the period

No dividends were paid, declared or proposed for the six months ended 30 June 2022 (first half of 2021: Nil).

16.2 Distributions to holders of Additional Tier 1 Capital Securities

	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Distributions paid on the Additional Tier 1 Capital Securities (note 32)	<u>614,680</u>	<u>647,214</u>

17 Cash and balances with banks and other financial institutions

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Cash on hand	355,841	333,177
Balances with central banks	35,851,645	68,681,722
Balances with other banks and financial institutions	45,843,884	39,307,026
Placements with banks and other financial institutions maturing within one month	63,793,590	67,684,965
Less: impairment allowances – 12-month ECL	(6,535)	(10,303)
	<u>145,838,425</u>	<u>175,996,587</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

18 Placements with banks and other financial institutions

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	75,212,242	49,665,516
Less: impairment allowances		
– 12-month ECL	(40,744)	(25,763)
	<u>75,171,498</u>	<u>49,639,753</u>

19 Financial assets at fair value through profit or loss

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Financial assets mandatorily measured at fair value through profit or loss:		
– Investments funds	5,333,410	5,794,977
– Others	535,359	546,870
Financial assets held for trading		
– Debt securities	2,266,911	92,807
	<u>8,135,680</u>	<u>6,434,654</u>
Financial assets at fair value through profit or loss are analysed by category of issuer as follows:		
– Central Governments and central bank	1,147,521	24,475
– Banks and other financial institutions	6,290,724	5,921,662
– Corporate entities	697,435	488,517
	<u>8,135,680</u>	<u>6,434,654</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 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 condensed 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
20 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 2022 and 31 December 2021:

As at 30 June 2022	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	774,943,061	5,772,017	(6,107,162)
– OTC currency options purchased	62,168,174	234,423	(16)
– OTC currency options written	73,183,513	7	(185,116)
– Structured foreign exchange instruments	7,031,413	275	(2,414)
Total foreign exchange derivatives		<u>6,006,722</u>	<u>(6,294,708)</u>
b) Interest rate derivatives			
– Interest rate swaps	237,854,030	4,824,698	(4,718,063)
– Interest rate futures	235,355	383	(630)
Total interest rate derivatives		<u>4,825,081</u>	<u>(4,718,693)</u>
c) Equity derivatives			
– Equity swaps	6,934,680	3,599,736	(282,430)
Total equity derivatives		<u>3,599,736</u>	<u>(282,430)</u>
Total derivative assets/(liabilities) held for trading		<u>14,431,539</u>	<u>(11,295,831)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	34,422,268	1,469,192	(244,844)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	7,642,445	60,172	(1,687)
– Commodity swaps	13,649,924	206,396	(275,848)
		<u>266,568</u>	<u>(277,535)</u>
Total derivative assets/(liabilities) held for hedging		<u>1,735,760</u>	<u>(522,379)</u>
Total recognised derivative assets/(liabilities)		<u>16,167,299</u>	<u>(11,818,210)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Derivative financial instruments (continued)

As at 31 December 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	659,394,309	3,983,337	(3,866,982)
– OTC currency options purchased	58,732,231	185,902	(3)
– OTC currency options written	61,192,594	8	(182,932)
– Structured foreign exchange instruments	8,874,796	611	(3,682)
Total foreign exchange derivatives		<u>4,169,858</u>	<u>(4,053,599)</u>
b) Interest rate derivatives			
– Interest rate swaps	215,342,679	2,790,676	(2,811,060)
– Interest rate futures	779,665	331	(54)
Total interest rate derivatives		<u>2,791,007</u>	<u>(2,811,114)</u>
c) Equity derivatives			
– Equity swaps	6,891,808	3,666,495	(456,510)
Total equity derivatives		<u>3,666,495</u>	<u>(456,510)</u>
Total derivative assets/(liabilities) held for trading		<u>10,627,360</u>	<u>(7,321,223)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	36,055,305	330,238	(746,027)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	6,052,560	–	(161,476)
– Commodity swaps	15,279,584	16,974	(355,730)
		<u>16,974</u>	<u>(517,206)</u>
Total derivative assets/(liabilities) held for hedging		<u>347,212</u>	<u>(1,263,233)</u>
Total recognised derivative assets/(liabilities)		<u><u>10,974,572</u></u>	<u><u>(8,584,456)</u></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

20 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 2022 HK\$'000	30 June 2021 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	1,615,114	734,071
– Hedged items attributable to the hedged risk	<u>(1,634,990)</u>	<u>(732,663)</u>
	<u><u>(19,876)</u></u>	<u><u>1,408</u></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 2021: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$184,186,000 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 2021: realised gain of HK\$268,355,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2022 as a result of the highly probable cash flows no longer being expected to occur (first half of 2021: Nil).

The Group uses foreign currency deposits to protect against exposures to variability in foreign currency exposures arises from net investment in subsidiaries. The net fair value of these deposit as at 30 June 2022 was HK\$356 million positive (31 December 2021: HK\$24 million positive).

21 Advances and other accounts

21.1 Loans and advances to customers, banks and other accounts

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	450,700,380	445,118,192
– Advances to banks	2,431,740	4,151,715
– Trade bills	6,295,639	4,417,951
	<hr/>	<hr/>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	459,427,759	453,687,858
Accrued interest	723,878	704,969
	<hr/>	<hr/>
	460,151,637	454,392,827
Less: Impairment allowances		
– 12-month ECL	(4,806,898)	(5,462,576)
– Lifetime ECL not credit-impaired	(845,005)	(745,908)
– Lifetime ECL credit-impaired	(1,514,065)	(1,439,567)
	<hr/>	<hr/>
	452,985,669	446,744,776
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	199,018	595,664
– Trade bills	14,920,689	10,441,078
	<hr/>	<hr/>
	468,105,376	457,781,518
Loans and advances to customers measured at fair value through profit or loss		
– Advances to customers	4,293,053	4,274,648
	<hr/>	<hr/>
	472,398,429	462,056,166
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NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Advances and other accounts (continued)

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Gross carrying amount of the credit-impaired loans and advances	2,880,232	6,182,041
Impairment allowances made in respect of such loans	1,514,065	1,439,567
Gross carrying amount of the credit-impaired loans and advances as a percentage of total gross loans and advances	0.60%	1.32%
Market value of collateral	<u>8,042,647</u>	<u>8,379,294</u>

Credit-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 credit-impaired loan ratio of advances to customers was 0.63% as at 30 June 2022 (31 December 2021: 1.37%).

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2022 (31 December 2021: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Advances and other accounts (continued)

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

The gross amount of the Group's advances to customers and banks (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 2022						
Overdue for:						
Six months or less but over three months	373,924	0.1	35,357	24,545	349,379	193,272
One year or less but over six months	319,923	0.1	369,213	69,583	250,340	264,888
Over one year	1,534,711	0.3	7,638,077	1,254,627	280,084	609,657
	<u>2,228,558</u>	<u>0.5</u>	<u>8,042,647</u>	<u>1,348,755</u>	<u>879,803</u>	<u>1,067,817</u>
As at 31 December 2021						
Overdue for:						
Six months or less but over three months	292,858	0.0	350,365	56,077	236,781	255,408
One year or less but over six months	17,552	0.0	–	–	17,552	17,805
Over one year	1,681,091	0.4	8,028,929	1,315,783	365,308	694,666
	<u>1,991,501</u>	<u>0.4</u>	<u>8,379,294</u>	<u>1,371,860</u>	<u>619,641</u>	<u>967,879</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 Bank'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 Bank's custody, or its whereabouts can be located by the Bank.

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 2022 and 31 December 2021.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Advances and other accounts (continued)
21.3 Other overdue assets

	30 June 2022		31 December 2021	
	Accrued interest HK\$'000	Other assets HK\$'000	Accrued interest HK\$'000	Other assets HK\$'000
Overdue for:				
Six months or less but over three months	10,882	-	658	-
One year or less but over six months	5,114	-	327	-
Over one year	169,717	-	140,007	-
	<u>185,713</u>	<u>-</u>	<u>140,992</u>	<u>-</u>

Other assets refer to trade bills and receivables.

21.4 Rescheduled advances

	30 June 2022 HK\$'000	% of advances to customers	31 December 2021 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	42,883	0.01	30,106	0.01

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 21.2 above.

There were no rescheduled advances to banks or other assets as at 30 June 2022 and 31 December 2021.

21.5 Repossessed assets

There were no repossessed assets of the Group as at 30 June 2022 (31 December 2021: HK\$6,170,000). 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.

21.6 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 2022 (31 December 2021: Nil). No collateral has been sold or repledged by the Group as at 30 June 2022 and 31 December 2021. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Financial investments

	30 June 2022		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Financial investments			
Debt securities	132,799,066	59,039,373	191,838,439
Equity securities	2,729,583	–	2,729,583
Total financial investments	135,528,649	59,039,373	194,568,022
Market value of listed securities	94,131,804	35,083,599	129,215,403
Debt securities are comprised of the following items:			
– Treasury bills	39,449,372	16,005,954	55,455,326
– Certificates of deposit held	–	397,251	397,251
– Other debt securities	93,349,694	42,636,168	135,985,862
	132,799,066	59,039,373	191,838,439
Financial investments are analysed by category of issuer as follows:			
– Central governments and central banks	52,907,820	20,961,565	73,869,385
– Public sector entities	1,573,083	1,048,851	2,621,934
– Banks and other financial institutions	28,005,101	14,700,375	42,705,476
– Corporate entities	53,042,645	22,328,582	75,371,227
	135,528,649	59,039,373	194,568,022

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
22 Financial investments (continued)

	31 December 2021		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Financial investments			
Debt securities	146,008,840	58,472,772	204,481,612
Equity securities	3,235,615	–	3,235,615
Total financial investments	<u>149,244,455</u>	<u>58,472,772</u>	<u>207,717,227</u>
Market value of listed securities	<u>101,735,215</u>	<u>33,420,419</u>	<u>135,155,634</u>
Debt securities are comprised of the following items:			
– Treasury bills	39,763,935	16,026,556	55,790,491
– Certificates of deposit held	–	–	–
– Other debt securities	106,244,905	42,446,216	148,691,121
	<u>146,008,840</u>	<u>58,472,772</u>	<u>204,481,612</u>
Financial investments are analysed by category of issuer as follows:			
– Central governments and central banks	51,427,355	22,490,960	73,918,315
– Public sector entities	1,030,345	1,098,911	2,129,256
– Banks and other financial institutions	39,006,465	12,578,073	51,584,538
– Corporate entities	57,780,290	22,304,828	80,085,118
	<u>149,244,455</u>	<u>58,472,772</u>	<u>207,717,227</u>

23 Investment properties

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Carrying amount at 1 January	145,300	131,929
Transferred from bank premises and properties	–	24,455
Net revaluation loss	–	(12,234)
Exchange difference	(1,285)	1,150
Carrying amount at 30 June/31 December	<u>144,015</u>	<u>145,300</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

24 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 2021 and 1 January 2022:					
Cost or valuation	913,457	434,183	606,304	2,673,186	4,627,130
Accumulated depreciation and impairment	(315,791)	(339,418)	(427,664)	(1,339,762)	(2,422,635)
At 1 January 2022	597,666	94,765	178,640	1,333,424	2,204,495
Additions	-	5,012	19,070	93,965	118,047
Disposals	-	(4,228)	(1,116)	(10,389)	(15,733)
Revaluation	4,115	-	-	-	4,115
Depreciation provided during the period	(8,393)	(15,454)	(27,776)	(231,013)	(282,636)
Exchange rate and other adjustments	7,814	-	(345)	(4,452)	3,017
Net book value at 30 June 2022	601,202	80,095	168,473	1,181,535	2,031,305
At 30 June 2022:					
Cost or valuation	879,711	429,401	617,053	2,729,995	4,656,160
Accumulated depreciation and impairment	(278,509)	(349,306)	(448,580)	(1,548,460)	(2,624,855)
Net book value at 30 June 2022	601,202	80,095	168,473	1,181,535	2,031,305
The analysis of cost or valuation of the above assets is as follows:					
At 30 June 2022:					
At cost	-	429,401	617,053	2,729,995	3,776,449
At valuation	601,202	-	-	-	601,202
	601,202	429,401	617,053	2,729,995	4,377,651

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
24 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 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	–	17,755	59,217	572,309	649,281
Transfer out	(24,455)	–	–	–	(24,455)
Disposals	–	(19,134)	(44,532)	(315)	(63,981)
Revaluation	28,861	–	–	–	28,861
Depreciation provided during the year	(16,163)	(33,872)	(55,650)	(485,054)	(590,739)
Exchange rate and other adjustments	(6,569)	4	54,602	(6,311)	41,726
Net book value at 31 December 2021	<u>597,666</u>	<u>94,765</u>	<u>178,640</u>	<u>1,333,424</u>	<u>2,204,495</u>
At 31 December 2021:					
Cost or valuation	913,457	434,183	606,304	2,673,186	4,627,130
Accumulated depreciation and impairment	(315,791)	(339,418)	(427,664)	(1,339,762)	(2,422,635)
Net book value at 31 December 2021	<u>597,666</u>	<u>94,765</u>	<u>178,640</u>	<u>1,333,424</u>	<u>2,204,495</u>
The analysis of cost or valuation of the above assets is as follows:					
At 31 December 2021:					
At cost	–	434,183	606,304	2,673,186	3,713,673
At valuation	597,666	–	–	–	597,666
	<u>597,666</u>	<u>434,183</u>	<u>606,304</u>	<u>2,673,186</u>	<u>4,311,339</u>

(b) Right-of-use assets

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Right-of-use assets – Premises, with remaining lease term of:		
– Not later than 1 year	13,915	22,081
– Later than 1 year and not later than 2 years	194,487	101,187
– Later than 2 years and not later than 5 years	852,621	1,083,597
– More than 5 years	80,749	84,999
	<u>1,141,772</u>	<u>1,291,864</u>
Right-of-use assets – Others	<u>39,763</u>	<u>41,560</u>
	<u>1,181,535</u>	<u>1,333,424</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Other assets

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Interest receivable	2,682,938	2,688,097
Prepayments	521,537	340,006
Settlement accounts	931,837	751,694
Margin deposits paid	4,066,240	5,351,882
Factoring	270,108	856,506
Others	1,067,594	501,587
	<u>9,540,254</u>	<u>10,489,772</u>
Less: impairment allowances for other assets		
– 12-month ECL	(41,106)	(54,648)
– Lifetime ECL credit-impaired	(21,135)	(15,107)
	<u>9,478,013</u>	<u>10,420,017</u>

26 Deposits from banks and other financial institutions

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Deposits from banks and other financial institutions		
– Measured at amortised cost	146,278,947	174,030,651
– Measured at fair value through profit or loss	13,649,924	15,279,584
	<u>159,928,871</u>	<u>189,310,235</u>

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$20,480,735,000 as at 30 June 2022 (2021: HK\$38,515,865,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

27 Deposits from customers

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Demand deposits and current accounts	55,881,136	49,234,348
Savings deposits	183,092,609	179,015,502
Time, call and notice deposits	331,994,239	320,053,940
	<u>570,967,984</u>	<u>548,303,790</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

28 Deferred income tax assets

The movements in the deferred income tax assets are as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
At 1 January	957,381	657,377
Credited to the condensed consolidated income statement	29,240	280,834
Credited/(debited) to equity	680,276	(2,718)
Exchange difference and other adjustment	(24,172)	21,888
	<u>1,642,725</u>	<u>957,381</u>
At 30 June/31 December	<u>1,642,725</u>	<u>957,381</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 condensed consolidated statement of financial position.

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Net deferred income tax assets recognised in the condensed consolidated statement of financial position	<u>1,642,725</u>	<u>957,381</u>
At 30 June/31 December	<u>1,642,725</u>	<u>957,381</u>

29 Debt securities in issue

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Debt securities in issue		
– Measured at amortised cost	15,628,192	12,586,707
– Designated at fair value through profit or loss	8,101,223	7,960,057
	<u>23,729,415</u>	<u>20,546,764</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Other liabilities

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Interest payable	2,980,121	2,196,289
Salaries and welfare payable	471,278	618,658
Settlement accounts	3,622,823	2,700,286
Margin deposits received	1,525,743	1,387,681
Factoring	270,108	856,506
Lease liabilities	1,209,264	1,355,918
Others	1,512,086	2,045,400
	<u>11,591,423</u>	<u>11,160,738</u>
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	282,346	296,441
– Lifetime ECL not credit-impaired	21,902	11,563
	<u>11,895,671</u>	<u>11,468,742</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 2022 (31 December 2021: Nil).

30.1 Lease liabilities

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

As at 30 June 2022	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	13,653	228,983	886,151	80,477	1,209,264
As at 31 December 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	22,513	103,131	1,145,878	84,396	1,355,918

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

31 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2021, 31 December 2021, 1 January 2022 & 30 June 2022	<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.

32 Additional equity instruments

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	7,771,390	7,771,390
US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	<u>19,897,375</u>	<u>19,897,375</u>
	<u>27,668,765</u>	<u>27,668,765</u>

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "2018 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 2018 Additional Tier 1 Capital Securities bear a 4.90% distribution until the first call date on 21 March 2023. If the 2018 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 2018 Additional Tier 1 Capital Securities qualify as Additional Tier 1 capital under the Banking (Capital) Rules (Cap. 155L) (the "Capital Rules") and LAC debt instruments under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (the "LAC Rules").

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 2018 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 2018 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 exceed the Bank's 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

32 Additional equity instruments (continued)

The Bank has a call option to redeem all the outstanding 2018 Additional Tier 1 Capital Securities from 21 March 2023 or any subsequent distribution payment date thereafter.

On 21 July 2021, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “2021 Additional Tier 1 Capital Securities”) in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7.77 billion net of related issuance costs). The 2021 Additional Tier 1 Capital Securities bear a 3.3% distribution until the first call date on 21 July 2026. If the 2021 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 (2.59% per annum) every 5 years. The 2021 Additional Tier 1 Capital Securities qualify as Additional Tier 1 capital under the Capital Rules and LAC debt instruments under the LAC Rules.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 January 2022. The Bank has the right to cancel distribution payment (subject to the requirements set out in the terms and conditions of the 2021 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 2021 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 exceed the Bank’s 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 2021 Additional Tier 1 Capital Securities from 21 July 2026 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 or other securities or other obligations 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

33 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 2022, the Group is not required to make “Regulatory Reserve” (31 December 2021: 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.

34 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.

34.1 Ultimate holding company

	For the six months ended	
	30 June 2022	30 June 2021
	HK\$'000	HK\$'000
Interest income	290,595	586,054
Interest expense ⁴	389,323	258,789
Net operating income ^{1,2,5}	(49,247)	142,022
Net operating expenses ^{3,4}	143,959	141,294
	As at	
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Amounts due from	86,285,710	94,515,883
Amounts due to	119,845,797	115,028,451

1. In accordance with the agreements dated 10 November 2020, 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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.1 Ultimate holding company (continued)

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 23 August 2021 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 12 April 2022, 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 9 March 2021, 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.
5. Net operating income includes net loss arising from the derivatives with ultimate company in the amount of HK\$262,625,000 during first half of 2022 (first half of 2021: loss of HK\$66,302,000).

(i) *Certificates of deposit issued*

As at 30 June 2022, the Bank has no certificate of deposit to the branch of ultimate holding company (first half of 2021: US\$20,000,000).

(ii) *Committed facilities*

As at 30 June 2022, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2021: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$15,133,784,000 (2021: HK\$7,707,622,000).

(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 2022 (first half of 2021: HK\$ Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.1 Ultimate holding company (continued)

(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\$1,629,993,000 (first half of 2021: HK\$1,690,420,000). For both the first half of 2022 and 2021, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$908,000 (first half of 2021: HK\$2,259,000) 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.

34.2 Fellow subsidiaries

	For the six months ended	
	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Interest income	22,189	21,570
Interest expense	2,328	4,663
Net operating income ¹	(141,467)	72,577
Net operating expenses	82,030	75,423
	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Amounts due from	1,994,006	881,105
Amounts due to	1,569,654	3,005,897

1. Net operating income includes net loss arising from the derivatives with fellow subsidiaries in the amount of HK\$144,164,000 during first half of 2022 (first half of 2021: gain of HK\$70,356,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.3 Associates

	For the six months ended	
	30 June 2022 HK\$'000	30 June 2021 HK\$'000
Operating income	4	2
	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Amounts due to	47,934	27,759

34.4 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 2022 HK\$'000	30 June 2021 HK\$'000
Interest income	129,377	293,092
Interest expense	6,293	3,222
Operating income	139,666	46,044
Operating expenses	1,200	1,957
	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Amounts due from	37,358,389	31,899,393
Amounts due to	11,778,007	5,880,765

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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.5 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 2022	30 June 2021
	HK\$'000	HK\$'000
Employee benefits	22,621	15,488

34.6 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 2022	30 June 2021
	HK\$'000	HK\$'000
Interest income	388	279
Interest expense	733	258
Operating income	11	4
Operating expenses	24	7

	As at	
	30 June 2022	31 December 2021
	HK\$'000	HK\$'000
Loans and advances	7,085	30,784
Deposits	112,637	76,398

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 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 included in deposits from banks and other financial institutions as appropriate.

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 2022		31 December 2021	
	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	10,025,604	9,998,729	28,615,021	27,377,389
Securities lending agreements	11,668,239	10,944,394	9,900,844	9,191,964

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 2022, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$616,231,000 (31 December 2021: HK\$828,094,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
36 Off-balance sheet exposures
36.1 Contingent liabilities and commitments

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

	30 June 2022	30 June 2022	31 December 2021	31 December 2021
	Contractual amount	Credit risk weighted amount	Contractual amount	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	21,324,400	19,455,242	14,662,978	12,442,206
Transaction-related contingencies	290,250	131,863	212,911	92,988
Trade-related contingencies	9,300,176	1,784,138	13,772,479	2,653,191
Forward forward deposit placed	10,585,003	4,352,868	–	–
Other commitments with an original maturity of:				
– Unconditionally cancellable	142,669,032	–	158,990,882	–
– With original maturity of less than one year	616,231	308,116	828,094	414,047
– With original maturity of over one year	59,285,369	27,073,017	62,973,571	29,760,586
	244,070,461	53,105,244	251,440,915	45,363,018

36.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2022 and 31 December 2021 not provided for in the financial statements are as follows:

	30 June 2022	31 December 2021
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	8,271	4,404
Expenditure authorised, but not contracted for	–	–
	8,271	4,404